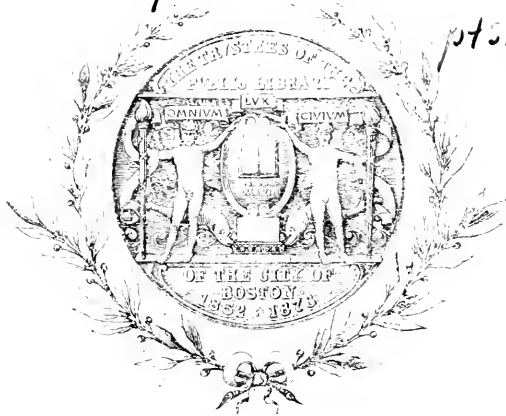


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POST-WAR ECONOMIC POLICY AND PLANNING

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HEARINGS

BEFORE THE

SPECIAL COMMITTEE ON POST-WAR ECONOMIC
POLICY AND PLANNING

HOUSE OF REPRESENTATIVES

SEVENTY-EIGHTH CONGRESS

SECOND SESSION

PURSUANT TO

H. Res. 408

A RESOLUTION CREATING A SPECIAL COMMITTEE ON
POST-WAR ECONOMIC POLICY AND PLANNING

PART 2

MAY 18, 19, 23, 24, 25, 31; JUNE 1 AND 6, 1944

ECONOMIC PROBLEMS OF THE TRANSITION PERIOD

Printed for the use of the Special Committee on Post-War
Economic Policy and Planning



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POST-WAR ECONOMIC POLICY AND PLANNING

THURSDAY, MAY 18, 1944

HOUSE OF REPRESENTATIVES,
SPECIAL COMMITTEE ON POST-WAR ECONOMIC
POLICY AND PLANNING,
Washington, D. C.

The special committee met at 10:30 a. m., pursuant to adjournment, in room 1304, New House Office Building, Hon. William M. Colmer (chairman) presiding.

Present: Representatives Colmer (chairman), Cooper, Fish, Zimmerman, Reece, Voorhis, Murdock, O'Brien, Wolverton, and Lynch.

The CHAIRMAN. The committee will come to order.

As has already been stated informally, due to the fact that the House will convene at 11 o'clock instead of 12 today, we shall have to hurry through this session.

General Hines, we are very grateful to have you here with the committee this morning.

I am sure that the Congress as a whole appreciates the splendid service that you have rendered and are rendering as Administrator of the veterans' affairs of this country. We appreciate, as you must, the tremendous responsibilities facing you as Administrator and the many problems confronting our returning veterans. We have great confidence in you and assure you that you have our sympathetic cooperation.

General, we would be pleased to have any statement that you care to make this morning; you will make yourself perfectly at home by being seated or standing, as you prefer.

**STATEMENT OF BRIG. GEN. FRANK T. HINES, ADMINISTRATOR,
RETRAINING AND REEMPLOYMENT ADMINISTRATION, OFFICE
OF WAR MOBILIZATION**

General HINES. Thank you, Mr. Chairman. I appreciate greatly your very complimentary remarks. I might say, briefly, in responding to them, that whatever I have been able to do has been primarily due to the splendid support and understanding that I have been able to have with the Congress of the United States. Without that, I doubt if anyone would have been able to handle the affairs of the veterans.

In this new assignment, Mr. Chairman, and in order to conserve your time, I have placed before each member of the committee, three statements. The first one is the statement that I submitted first to the subcommittee of the Military Affairs Committee of the Senate and the other day to the committee of the Senate headed by Senator George on post-war adjustment. It outlines, in my estimation, the problems—

and there is more than one—connected with the whole readjustment period. I am going to ask your permission to introduce it into the record and to comment on that and to follow it by two other statements, which I am sure the committee will find interesting. One, an outline of the problems as I have been able to see them in the study of retraining and reemployment, as far as I have been able to go; and the other is a summary of the responses that I have received to a letter that I sent very shortly after being appointed Administrator to all of the Governors asking them what they were planning to do and indicating my great desire to cooperate with them, particularly, so that there should be no overlapping and no duplication of effort, feeling that it is necessary in the solution of this problem that we have splendid teamwork and do not expend energy by duplicating effort in any direction.

The CHAIRMAN. Pardon me, General. As I understand, then, you desire to make these three statements a part of your statement?

General HINES. Yes; I would like to have them introduced into the record, if I may.

The CHAIRMAN. Without objection, it will be so ordered.

(The three statements were marked respectively "Exhibits 9, 10, and 11," and are found in the appendix on pp. 467 to 480, inclusive.)

General HINES (continuing). Now, Mr. Chairman, this agency, the Retraining and Reemployment Administration, set up by Executive order of the President, contemplates the coordination of existing Government agencies and planning for the future. It is not a new administrative agent. The Administrator of the Retraining and Reemployment has to assist him and advise him, a policy board, made up of the agencies that have something to do with retraining or reemployment either directly or indirectly. For instance, we start off with the representative of the Policy Board from the War Department, the Navy Department, the Federal Security Agency, the War Production Board, the Veterans' Administration, Civil Service Commission, United States Employment Service, and the Selective Service. All of those are operating Government agencies. They all touch upon the problem of unemployment, and two of those agencies are now engaged in the problem of retraining at the present time.

The CHAIRMAN. Now, General, if I may at that point interrupt you since our time is limited, and since you have so kindly made these statements a part of your statement, I am wondering if it would not be advisable for you to devote these few minutes to telling us what you are now doing; and I imagine some of the members would want to ask you questions along that line, toward the rehabilitation of these returning veterans. I believe there are a million of them already—

General HINES (interposing). About a million, 200,000 have so far been separated from the service.

The CHAIRMAN. Yes.

General HINES. In some form or other, either on certificates of disability, or for age, or for other reasons. But that number has come out of the combined services up to date.

I will be glad, Mr. Chairman, to tell you the steps so far taken by this new administration. I have referred to the letter to the governors and the response to that has been remarkable. It indicates that they are all giving considerable thought; some of them in some States, as you will see, by studying the summary, are further advanced than the Federal Government with the problem at the present time. But one

of the first weakness pointed out by the Baruch-Hancock report was that the veteran, upon arriving in his home community, was shifted around from one point to the other, and there was no definite place he could go and receive accurate information. Well, the committee will undoubtedly understand that the law contemplates that the veteran when leaving the service will return to his draft board. That was done for the purpose of enabling the veteran to get his old job back, if it was still available. A member of the draft board is an employment member and it is his duty to see that the veteran obtains his old job, if he desires it, or if it is not available to endeavor to get him one equally as good.

Many States and many communities had already undertaken to set up various forms of information centers. All of the Government agencies interested, including the Veterans' Administration and the United States Employment Service, had information desks in their various offices, but there was no definite form of a pattern. What should the information center be? So one of the first problems that I presented to the Policy Board was the proper establishing as far out as we could go in the communities of an information center—not a combination of Government activities, but one place where the veteran could go and at that point receive accurate information. The Board acted on that, approved the policy: in order to carry it to the maximum number of communities, the agencies selected to do that were the Selective Service, the Veterans' Administration, and the United States Employment Service. A combination of those had the greatest number of established offices with paid employees.

The next step was to adopt a policy on what should be an information center, a pattern, and they have acted on that, and instructions are being sent out, not only to all of the agencies charged with the responsibility of setting up these centers, but in order to cooperate with the governors and not upset some excellent centers that they have established. We are sending copies of that pattern to the governors as well, in order that their committees and those that are working on them will follow the same plan.

Now, we know that at the present time we are getting the problem that will face us later in magnitude by cut-backs. It gives an opportunity to test out efficiently by these cut-backs how men can again be placed in employment. The veteran is not at this time going to be the serious problem. The serious problem will, in my judgment, hinge around those localities where munition plants have been established and where considerable numbers have gone for employment, and when they close down there is no other employment in that given community. You then will be faced with two problems. One, which we have under study at this time, which the committee will undoubtedly give consideration to, and that is, What form of unemployment insurance should be used? What is or what should be the period, the adjustment period? Will the States be able to handle that under the present system, or will it be necessary for the Federal Government to assist the States?

We are all familiar with the fact that not all groups that take a part in the war effort are covered by unemployment insurance. Outstanding groups like agriculture, Government employees working in munition plants, and others, are not covered.

While it is true that we are still having the reverse of what will happen when we commence to demobilize, and we are having it in a small measure and there is now a competition for manpower rather than jobs, nevertheless, there will be communities where people will be unemployed, even at the present time. I have felt that one solution—it may not be the best—would be to first establish a definite period that we would call the readjustment period. It may be a year, it may be 18 months, or it may be 2 years; but adopt that period and say that unemployment insurance would be paid to both the covered and the uncovered group during that period for a definite number of weeks and at a definite rate.

There are two ways you can set down the rate: One, to take the rate of the States which they have established. By doing that, you get a lack of uniformity—some States pay more and some less, and some pay what I think labor rather feels is inadequate. You might fix the minimum or you might fix a flat rate. You have the proposition covered in the bill which is now pending before the House, so far as veterans go, where, within a year or 2-year period, you fix a flat rate per week for a definite number of weeks—26 weeks. When the States take care of the covered groups—and mind you, the State funds are probably higher than they have ever been before—we have good economic employment conditions.

It is true that some unemployment compensation has been paid. That, to some of us, raises the question as to how it is possible for unemployment insurance to be paid when manpower is so short. But those problems can all be explained undoubtedly by those who are handling them. I would not attempt to go into details on that. But there will be uncovered groups among the veterans when they come back and among the war workers, so it would be my suggestion that the States pay, out of the State machinery, unemployment compensation for a fixed period during the readjustment period, and that the Federal Government reimburse the States for those that are not covered by the State insurance plan at this time. You will find a difference of opinion on that. It occurred in the Policy Board, and we haven't settled it, but I hope at the next meeting we can. Some members of the Board feel that no reimbursement or subsidy to the State should be made as long as they have money in the fund; that the funds should be exhausted first. Well, that fund is like all funds built up; it belongs to certain people who have contributed through the taxes raised in that State. But it does seem to me that some simple process of using the machinery that is set up rather than to endeavor to establish a new way of doing it and a new operating agency to do it, would be desirable. There will be some fears expressed that if the Federal Government undertakes to do that, isn't there a danger that the whole system will become federalized? Well, perhaps, you can make an argument on that. But, mind you, we are facing an emergent condition and a real practical situation.

We all know that our national income has been doubled from 1939 and 1940, and that half of that is due to war production. When war production ceases, if we are to successfully solve the unemployment that will result from cut-backs and shut-downs and final demobilization, we will have to adopt measures that seem practical and different, regardless of whether they set an example of what can be done for the future or not.

We all know that when a man is employed, he is apt to spend more liberally than one who is unemployed. The force that creates employment is the great need for manpower. If we could keep all of our people gainfully employed at what is considered a suitable living wage in the various communities, we would be a very happy nation. I really believe that we can solve the problem provided we can do some sound thinking and careful planning at this time. It will be too late, gentlemen, to attempt to plan when demobilization starts. We tried that before, you all recall. I happened to have something to do with the last demobilization. I felt very proud of getting the men back from France faster than we sent them over. That produced an unhappy situation in some communities, because we threw the men from the service, demobilized the armed forces in a community at a period when they were facing readjustment—when they had too much unemployment at that time. For that reason, I feel that we should give some consideration to our speed of demobilization. It should be an orderly demobilization with some thought as to how fast these men can be absorbed into reemployment. The conditions under which we are operating this time will control it somewhat.

I have a feeling that the rate at which these men can be brought back on demobilization will be much less than it was before because of their locations and because of certain conditions that will arise following an armistice, whether it be in the west or in the east. It probably will not occur at the same time.

Shipping will be a very important and controlling factor. In the last war, Great Britain transported more than a million of our 2,080,000 men we sent overseas, and our immediate problem following the armistice was to find ships to bring our men back because the British ships were not available as they were pulled out of transport service rapidly and put into commercial pursuits.

This time, we are in better shape; we have more ships, and we will be better able to demobilize and regulate matters ourselves. But those are the problems that are now before this Policy Board: First, we are trying to coordinate the agencies that are now doing the job. It will be my business, and it is my business as Administrator as long as I am there, to see that those agencies are doing the job. I hope that it can be done without the necessity of any administrative force except the planning force here in Washington. But we are leaning now, of course, upon the United States Employment Service to do two things: (1) To obtain manpower (this service operates with the Manpower Commission); (2) when cut-backs occur, to reemploy those people that are thrown out of employment. I feel that it is essential at this time that some consideration be given to the timing of cut-backs wherever it is possible, and by that I do not mean that we should go ahead and manufacture something that we will not need; that would not make sense, and neither the Congress nor the people would support that. But if we have two plants making the same article, in the way of munitions, and one is in a community where those thrown out of employment can be promptly reabsorbed, why, then, that is the place to make the cut-back, not at the plant where they cannot be absorbed.

We can't handle this thing as you would play checkers because people will not move that way. I know in one or two communities now that certain cut-backs have been made; there is employment for the people unemployed by reason of those cut-backs in certain other types of very

essential war production, but the employees hesitate about taking those jobs, and you can't under our existing policy, force them to take those jobs.

Now, whether that will produce a situation where unemployment compensation will have to be paid even now where we have employment is a matter that is going to merit very careful consideration. But, Mr. Chairman, these problems and the magnitude of them—the further you go, the greater they look. But there is one thing that prompts us to push ahead. If we can be as successful as we have been in the last 2 years in building up the greatest production machine that has ever been built—we have the ingenuity to do that—we must have the ingenuity to do the reverse of that: Put that machine in reverse and find a way to keep our people employed. That is going to require teamwork; it is going to require a better understanding between management and labor; I have one fear—I don't know that it is real and I hope it isn't—that probably some of these misunderstandings have been covered up because of our desire not to interfere with the war effort and not to give those men abroad any cause to feel they have not been fully supported at home. But if there are some misunderstandings between management and labor that are being concealed at this time because of the war effort they should be revealed and settled because they will interfere with us greatly in this readjustment period. I hope this can be accomplished.

I have been in contact with the two leaders of the great labor organizations that have offered cooperation. They have appointed liaison men to work with me, and, so far, their cooperation has been excellent. If it can continue on the same lines, we will solve the problem.

There are many problems that will confront the veterans—some hurdles that will have to be removed before they return. The labor organizations have submitted them to their unions. The veteran will want to know when he comes back whether he has to join the union at a certain plant, whether he has to pay high initiation fees, and all those problems that go with it. Labor, on the other side, has a very difficult problem; many plants are covered by contracts between the unions and the employer. Those contracts can't be pushed aside readily, so those problems—and there are many of them—have been submitted to the unions. I know what their desire is. They have stated it. Their desire is to do everything they can to assist these men in getting gainful employment. What they will have to do to accomplish that and what machinery will have to be set up is something that requires very careful planning at the present time.

Then, aside from unemployment compensation, Mr. Chairman, we are going to be faced with the problem of what will be the Government's part in having people, located in one section of the country, for instance—let me give you an example: The State of Washington in 1940 had approximately enough people to keep it gainfully employed. During the past 2 years and because of the industries set up in that State the population has greatly increased. One of the things that the Governor of that State pointed out promptly in his reply to me was that he had 45 percent more people in his State now than he had in 1940, and where would they be reemployed?

That brings up the question, then, if we have jobs in the East, and people to fill the jobs in the West, will we ask them to go East at their own expense, as they did in many cases, although some corporations

took part in recruiting and transporting people to some of these points? And we will have other problems.

Mind you that these men who went into the service skilled in a certain way are not going to come out the same. We have had examples already. They don't in all instances want their old jobs back; they want a better job. They have been trained. Some of them have become expert mechanics, and they want a better job, and we should do everything we can to find them a better job. But you are going to have, in many instances, from the men who come back—and something like 3,000,000 of them belong to unions and belong to either one of the large organizations or the other—the question of where they fit into an organization. What has happened to their seniority rights? Do they advance or do they start where they left off? So those are some of the problems.

But the problem of fitting employees into jobs and finding jobs and employees at the same place is not going to be easy. We will probably find that we have a surplus of jobs and a surplus of employees that cannot fill those jobs. That is where the retraining will have to come in.

We are doing some training now of veterans. The Federal Security Agency, through its Rehabilitation Unit, is training people disabled in industry and others to fit into industry in important wartime jobs. We will have the reverse of that when we are demobilized. And, too, we will have to consider the extent of training to fit a man for a job. I am strongly in favor of that by the shortest possible route, because without gainful employment it will cost the Government much more than by training him for a new job.

You have before the Congress at this time a rather broad bill on education. That may be the basis of a demand for some education on the part of the war worker; I am not sure. But I am sure of one thing: That, no matter which way you tackle this problem, from one angle or the other, you will always come back to the same thing—that the key to the whole situation is prompt reemployment, and the sooner we get our people reemployed and readjusted, I am confident that will be the time that we will then have solved the problem of readjustment and demobilization.

Now, Mr. Chairman, probably some members of the committee would like to ask me some questions. I will not proceed any further at this time as I know the House is meeting earlier today than you had anticipated.

The CHAIRMAN. Yes, General. I would like to start off by saying that I think we are all in accord with your statement that employment is the key to the whole situation. I might state, in my opinion, it is the prime consideration of this committee; it is one of the reasons this committee was set up. That leads me to the comment that you made about the returning veterans and the unions.

I had Mr. William Green, of the American Federation of Labor, before us, and we had some discussion in regard to that problem. Frankly, I did not get the answer from Mr. Green; at least, it wasn't entirely satisfactory to me. The thing that concerns me is, when these veterans return, after having gone out and fought the country's battles and offered their lives as a sacrifice upon the country's altar, whether they are going to be discriminated against by unions.

Now, I believe, basically, in the right of unions; I think they are necessary, but is the veteran going to be denied the right to gainful

employment after his sacrifices by some practice of the unions that is condoned, at least, under our system?

General HINES. Well, I can answer as far as I have gone with them, Mr. Chairman, and say that it is their intention, and they have so declared, that they will do everything within their power to make sure that he is not discriminated against.

There are questions that they have submitted to the local unions, and, mind you, the power does not rest here in Washington at the headquarters of these great organizations; the power and rules really are with the local unions, but all of the questions presented by both the C. I. O. and by the A. F. of L. are designed to be fair and to find a way to solve whatever difficulties we can see at this time, so that the veteran will not be discriminated against. I have those questions, and I have their letters, and if you desire them, I will have them introduced into the record.

The CHAIRMAN. Yes, sir. Well, now, that is all right as far as it goes. But regardless of who is responsible, if the veteran is discriminated against, it is the very core of the situation.

You made some comment upon whether a veteran should be required to belong to a union. Of course, we know that if the unions succeed in getting closed shops everywhere, that the result is going to be a discriminating influence. For you and I know that some of these crafts have very high initiation rates. Not only that, but the employment, in many instances, is limited. Now, consider a veteran. Many of these boys are youngsters who have never been in the field of industrial employment. Therefore, they have never had occasion to belong to a union. They come back. Suppose one of them wants to go into some field of activity, plumbing, for instance, and the union, the local, or whichever organization it is, takes the position: "Now, we don't have enough employment here for the men who are already in the union. Our first duty is to them; therefore, we can't enlarge our numerical strength."

General HINES. I will be able to answer that question, Mr. Chairman, much better when they have answered and we have consolidated the letters to answers which both have sent out, because that very question is one that they have presented.

The CHAIRMAN. Fundamentally, General, should it be necessary for one of these boys to join a union in order to obtain employment?

General HINES. Personally, I feel that it should not. But there may be conditions existing locally that may make it desirable for the man to join the union. But I do feel that he should have the right to make that decision himself.

The CHAIRMAN. Right.

General HINES. And he should not be forced to make a decision that he doesn't wish to make.

The CHAIRMAN. General, there are a number of other things which I should like to ask you, but since our time is limited, I am going to refer to other members of the committee.

Mr. Cooper?

Mr. COOPER. Mr. Chairman, I should like to refer very briefly to several points. First, do you think the provisions of the bill now pending in the House, known as the GI bill, are sufficient to take care of returning veterans so far as the unemployment problem may be concerned?

General HINES. I do; yes, sir; and I have so testified.

Mr. COOPER. You do.

General HINES. Yes, sir. The bill, of course, was changed in the House, but it is more in accord with existing rates than it was when it left the Senate; that is, on unemployment compensation.

There is one thing that I think we will be required to keep in mind. We have two groups of veterans: One, the disabled veteran, and the other, the able-bodied veteran. The disabled veteran, the Congress has passed laws already taking care of the veteran in hospitalization, vocational training, and pensions. The able-bodied veteran will come back and he will go into his own community among his neighbors. If I sense their feeling—aside from probably taking advantage of some of the splendid provisions of that bill, such as the educational features; if he is a young man, the veteran may want to make a loan for down payment on a home or farm or equipment—the able-bodied veteran will only want one thing when he gets back in that community. He wants to live happily among his neighbors. He will want the opportunity of gainful employment. I do not believe you should attempt to set the able-bodied veteran up in any community as a special class, except for those provisions such as you are debating in the House now, which the public will recognize. If I am any judge of the able-bodied veteran, he will want to stand on his own feet and go along with whatever happens in his home community. If unemployment occurs, he will want to take his part and be treated as the rest in that community.

Now, this bill provides unemployment compensation for the veteran during a definite period. They are attempting to do there what I have suggested for the war worker as well—establish a readjustment period. Afterward, he then takes the same chances as the rest of the workers in his community, and he will want to do that.

We frequently hear now the statement made that we should do this or that for these boys. My answer is when these men come out of the service—they may have gone in as boys, but those boys have earned, when they are mustered out of service, the proud title of “veteran,” and they will want to be treated as men. They will want opportunities to do things, but they will not want to be told what they have to do and be led around by the hand. They will want to stand on their own feet, I am satisfied. They would not be the good soldiers that many of them are proving themselves to be unless they felt that way, so that I feel that the legislation on the books, so far as the disabled veteran goes, has met the situation as far as our ability lies to fix rates. They may need some adjustments, but we should keep in mind always the danger and the damage that comes from any inequality of treatment on any given thing.

Now, that is, I believe, the reason the House committee cut the rate on unemployment compensation—to bring it a little nearer to the rate paid in a given State on an average to others that are unemployed.

Mr. COOPER. And it is your thought, General, that the laws already on the statute books with respect to disabled veterans to get hospitalization do meet hospitalization, and all rights that are now provided by existing law and the passage of the bill now under consideration should be adequate to take care of the veterans of this war?

General HINES. I do, Congressman. There may be some inequalities that, by study, we will have to make suggestions to the Congress on, but

as an over-all pattern it is much more than we have ever done before, and it is a very generous treatment of the problem.

Mr. COOPER. You stated we already have 1,200,000 men, who have been separated from the service during this war. I think I read, in the press, probably, where you were reported as having made the statement that we already have something like 100,000 disabled men from this war already on the disability compensation roll.

General HINES. That was up to the end of March 1944, 118,839 World War II veterans.

Mr. COOPER. One hundred thousand. One other question, and that is with respect to these offices that you propose establishing throughout the country for service to returning veterans.

General HINES. Information centers.

Mr. COOPER. Information centers. It has been very interesting to go through this statement prepared by you, giving the responses made by various governors of the States. Naturally, my attention has been attracted by the statement here from the Governor of my State of Tennessee, which states, "A post-war planning committee has been set-up, and funds have been appropriated to expand the ex-service-men's bureau." That was an organization originally set up to take care of the veterans of World War I. I take some degree of pride in the fact that it was during my administration as State commander of the American Legion of Tennessee 23 years ago that this ex-service-men's bureau was established.

General HINES. As I recall it, it has rendered splendid service.

Mr. COOPER. It has rendered splendid service.

General HINES. Right.

Mr. COOPER. Under the direction of your friend and mine, Guy H. May.

Now, it is your thought that the same degree of cooperation should continue?

General HINES. That is right.

Mr. COOPER. That has been during the past?

General HINES. That's correct, Congressman. The instructions going out tell those responsible, the managers of the three agencies, that they are to confer with whatever machinery the governors have set up, and wherever they have established information centers that are satisfactorily working they must not be disturbed. We must work with the governors.

Mr. COOPER. Now, then, to get a little more definite information. General, what is your plan with respect to any other service centers, other than those that are provided by the States?

General HINES. Naturally, every office of the Veterans' Administration, the United States Employment Service, and the Selective Service cover the greatest number of communities. They go down into the counties. They must have in those offices a set-up that will give the same information so that if a man comes into one of those offices, he will be able to find out whatever information he is asking for and not be told he has to go somewhere else to get the answer to his question. Now, he may have to be referred to some other point. For instance, if he came in the Veterans' Administration, we haven't the machinery for his reemployment, but we should assist him in contacting the right person in the United States Employment Service who can get him reemployed.

If he goes into the United States Employment Service for hospitalization, and he needs aid, they must be prepared to get in touch with the Veterans' Administration and see that the man is taken care of in a hospital.

Mr. COOPER. Now, you mentioned the Selective Service.

General HIXES. Selective Service has, of course, a limited personnel, except in the large centers. But it has 1 clerk in each of its offices, some 6,500 of them. They have a given set-up. Those offices, probably, will be ones that later on, if the governors of the States have not covered the situation in some communities, will have to be covered by some other of the three agencies. But in most States you will find that the governors have covered all communities of 10,000 population or more, so that the numbers coming back into the smaller communities probably can be well handled by the Selective Service officers.

Mr. COOPER. Well, now, the Selective Service officers, that is commonly thought of as the local draft board?

General HIXES. That is right.

Mr. COOPER. I assume there is, at least, 1 of those in each 1 of the 3,000 counties in the United States?

General HIXES. That is right.

Mr. COOPER. Of course, in the cities and larger centers of population there are a number of them?

General HIXES. Yes; there are several of them.

Mr. COOPER. Now, these selective service boards may well perform the duty that you have suggested here, as long as the war lasts?

General HIXES. That is right.

Mr. COOPER. But it is not contemplated that local draft boards will continue in existence after the war, is it?

General HIXES. Not at all. And the bill that is now before you provides that those units and that section of the law, it is in section 8 of the draft law, that the duties required there will be transferred to the Veterans' Administration following the war, or even before the war is over, if, in the judgment of the President, it is desirable to do so.

Mr. COOPER. All right. That brings me to the point, and then I will not detain you further other than to ask this question. We now have the local draft boards. They can, as you express it, perform the functions that you outline here as long as they are in existence?

General HIXES. That is right.

Mr. COOPER. After the war the local draft boards will cease to exist. Then those functions will be taken over by the Veterans' Administration?

General HIXES. That is right.

Mr. COOPER. Now, is it contemplated that you will continue a Veterans' Administration agency every place where local draft boards existed?

General HIXES. We will undoubtedly have to have our contact men cover those points as long as there is a necessity of finding employment in a given community.

Mr. COOPER. All right. Thank you.

The CHAIRMAN. Mr. Fish?

Mr. FISH. General, are you now training the veterans for occupational work?

The CHAIRMAN. Yes; under the law, Public, 16, we are charged with the responsibility of retraining the men who return; the men who have a service-connected disability of 10 percent or more, that interferes with their gainful employment, prevents them from carrying on in gainful employment.

Mr. FISIL. Where is that retraining work done?

General HINES. We are doing it in schools and training on the job. First, of course, the man is examined to see what he can do and what he was doing before; but we have some 1,200 in colleges and schools undertaking to learn different subjects. We have others training on the job into employment in various plants throughout the United States.

Mr. FISIL. You have no schools of your own?

General HINES. No; and I do not contemplate establishing schools if suitable facilities are available of those that are in that business and can do the job.

Mr. FISIL. I am glad of it. And you don't contemplate setting up any of your own schools to rehabilitate these veterans?

General HINES. I can't believe it is necessary. I think there are enough set up.

Mr. FISIL. I asked about that because we did that in the last war, and we set up some of the most miserable schools that existed.

General HINES. Well, we made two mistakes in the last war, Congressman. One, we were not good at advising men what objective to train for; and, the second was, we went into the school business, and we did not know as much about it as others already in the business.

Mr. FISIL. I am very happy, General, that a person of your experience, in both the last war and this war, is at the head of the Veterans' Administration and doing a very fine job. I think we can avoid making some of the mistakes which were made previously after the last war.

General HINES. We should.

Mr. FISIL. What this committee wants to know from you is very simple and won't take any time at all, because we are nothing but a committee to formulate post-war problems. You are the head of the Veterans' Administration, and we want to know from you whether, in addition to the bill now pending, which is, in my opinion, the first post-war bill to reach the veteran, comprehensive enough, there are any other recommendations that you want to make to solve the post-war problems of the veterans?

General HINES. Undoubtedly some will arise, and I will submit them to the Congress as fast as they do.

Mr. FISIL. But you have nothing else today?

General HINES. I have nothing at the present time. I feel that what the Congress has done is so far ahead in this war as compared with the last one that there is no comparison whatever.

In the first place, you have 94 operating hospitals for veterans throughout the land. They have now some 87,000 hospital beds. We will add to them: more beds are coming in every month throughout the end of the year until, going into the next year, we will have 100,000 beds of all types in veterans' facilities alone. We contemplate, and the plans have been made, for the building of certain Army and Navy hospitals, which hospitals will be turned over to the Veterans' Admin-

istration after demobilization. So, in hospitalization, you have that immense set-up against practically nothing following the last war.

You have already enacted suitable pension legislation; you have enacted separation pay, or muster-out pay; you have enacted a law enabling these men to go into training, and with all those things on the book with the passage of this bill, it is pretty hard to contemplate any additional items at this time.

We will have, in the operation of the bill and in the legislation, from time to time, inequalities arising, which we will try to straighten out.

Mr. FISH. That is a very fine statement. I don't have the privilege of meeting you face to face very often, but we have talked over the telephone a little bit; but, if you will excuse my raising this point now, and if the committee will, there was a bill that included—which you are familiar with—and it just passed the Congress a few days ago—a provision to provide a million dollars to be spent to provide the seeing-eye or guide dogs for the blinded veterans?

General HIXES. Yes.

Mr. FISH. An amendment was added on in the Senate. I don't know who introduced it, but it passed, authorizing your Administration to acquire electrical devices, Braille reading, and other apparatus for the blind.

General HIXES. Yes.

Mr. FISH. I don't know the merits. I did not have time to study the merits of it, but we accepted the amendments in the House. I just want to call your attention to it and wanted to be sure of one thing, that it wasn't put in by any special interests. I don't know the purpose of it, but rumors have come to me that a special interest having control of the apparatus put through the amendment.

General HIXES. I know nothing about it.

Mr. FISH. I wanted to ask you to look into it because I don't want to be a part of it.

General HIXES. I don't know just what they contemplate. Of course, our policy in dealing with the blind is to do anything we can to rehabilitate the blind to carry on in gainful employment. We pay them a very substantial pension, as you know, \$175 a month; but we do not pay that sum with the hope that they will not endeavor to do something, so that in the rehabilitation of the blind as it is going on, we have a very definite policy outlined between the War and Navy Departments and the Veterans' Administration; we start rehabilitating these men as soon as they get into the hospital, first building up their morale, teaching them how to take care of themselves, teaching them simple Braille. One of the few things they get is a watch with Braille on it so that they can tell time. That boosts the morale of the blind man immensely.

We find also that you can teach the Braille best by having an instructor who is a successful blind man himself.

We are doing things like that; we are doing all that.

Now, there are some veterans who will undoubtedly want seeing-eye dogs. Some probably will not; but I can assure the committee that whatever is necessary to get the blind to carry on in some community—and I do not believe in colonizing them at all—I believe letting them go on in their own community, in their own environment; they are happier there, and they will carry on.

Mr. FISH. I want to point out to you there is nothing new about the seeing-eye dog—guide dog is the proper name. It has been tried out for 25 years, very successfully by some 4,000 or 5,000 blind men, and I am told it has done more to raise the morale than any one thing, because they can get around and are independent. So I hope you will do everything you can to promote that; at least to try it out.

You said something here today that if these things worked out with veterans, it might be well to extend them to civilians. I think that is a very sound statement.

I think further, if you are successful with the seeing-eye dog with the blind, and if it is as valuable as has been stated, in promoting their morale and independence, I think the time may come when we will have to provide guide dogs for all blind people.

General HINES. Well, most certainly, we all agree in principle it is better for a person to do something, whether he is blind, deaf, or whatever his condition is, than to make no effort to carry on. He is happier, and it is better for the community.

I have had a good deal to do with these guide dogs. The owner of the originator of the farm in New Jersey brought the real, original seeing-eye dog to call on me one day, and he told me, "When this dog sees you again he will recognize you no matter if it is 1 year from now or 10 years." I think it was about 7 years later, the same man came into my office, and he had the same dog, and the dog had not any more than reached the door than he shot ahead and rubbed his head alongside my leg, showing that he did recognize me. They are very smart, and they are well trained. In addition to building the veterans' morale, I am sure it becomes his best friend.

Mr. FISH. A companion, sir?

General HINES. That is right.

Mr. FISH. I am glad you feel the same way I do, so that you will see—

General HINES (interposing). We will develop it.

The CHAIRMAN. General, I have just one question to ask you.

I was glad to hear you say that the country is so far ahead today in its planning than what it was during the last war.

I wonder whether you are in position to give us an estimate of what this veterans' program is going to cost a year.

General HINES. Well, let me cite parts of it. The Appropriations Committee asked me the same question, whether I could estimate, not many years ahead, but the next year.

The CHAIRMAN. That is right.

General HINES. As to expenditures, our accounts for monetary benefits of veterans are over one million in number every month. That amounts to—

The CHAIRMAN (interposing). What was that?

General HINES. Over one million accounts of monetary benefits; that amounts to \$43,000,000 a month. That means for pensions and compensation alone.

The CHAIRMAN. Does that include World War I?

General HINES. World War I and World War II together, all of our wars, and peacetime, that is the total expenditure sent out in the way of checks every month. Our hospitalization is costing us approximately \$70,000,000 a year right now.

I said we would have beds in the Veterans' Administration for 100,000. We have need for an additional 100,000, which we will obtain from the Army and Navy that will either come to us as units or there will be beds allotted that we can use of an additional 100,000. That makes 200,000, which we will add before we reach the peak of World War II, if it were to stop tomorrow, another 100,000 beds, making a total of 300,000 beds. If the costs remain about the same, then it would be safe to multiply your \$70,000,000 a year on hospitalization by 3, which would make \$210,000,000 a year.

The factor that is uncertain where the costs may be great is in insurance. The Government carries insurance funds on World War I and World War II. The total amount of insurance covering World War II veterans is the national service life insurance, which has on the books at this time \$112,000,000,000. That covers more than 15,000 applications. It averages better than \$9,000 per life. Some units are completely covered by the highest coverage on insurance that we have ever experienced, so you can readily understand why I say that that factor is uncertain.

No one can tell what our costs might be if we had terrific losses on invasion, or if the war was prolonged very long.

Mr. VOORHIS. General, don't you mean 15,000,000 applications?

General HINES. Fifteen million; yes.

Mr. VOORHIS. You said 15,000.

General HINES. Fifteen million.

The CHAIRMAN. Just one further question along that line. When do you expect to reach the peak of Government payments to veterans?

General HINES. Of which war?

The CHAIRMAN. Of this war.

General HINES. I can't estimate that because I have no way of knowing the duration of the war, so the expenditures for insurance and expenditures for disability compensation would be factors that could not be calculated until the war is over.

I do feel, if it will be helpful to you, leaving out the bill that is now before the Congress, I feel that the expenditures for the Veterans' Administration within a year and a half will reach \$2,000,000,000 a year.

The CHAIRMAN. In 1½ years?

Mr. FISH. I was going to ask you, if those are the figures I used the other day, the expenditures would be around \$2,000,000,000 a year.

General HINES. Yes.

Mr. FISH. But it would run over that, when you take into consideration the mustering-out pay of all veterans, it would make it around five billions?

General HINES. Those include expenditures of the War Department for veterans not calculated in the mustering-out pay. The allotments and allowances are all paid by the War Department and are not included in the expenditures of the Veterans' Administration.

Mr. COOPER. Mr. Chairman, let me ask one question there, if I may: I understood you made a statement to the Military Affairs Committee, General, that it was your estimate that, with the laws now on the statute books relating to veterans and the pending bill becoming law, the cost would probably exceed \$13,000,000,000?

General HINES. Well, the present bill, of course, many of its provisions will not take material effect until after demobilization, that is,

the educational feature, which is quite an expensive one; the mustering-out pay—

Mr. COOPER (interposing). According to the letter put in the record, it would be in the House record, I think you estimated the costs of this bill at about six and one-half billion.

General HINES. That is right.

Mr. COOPER. Now, then, I understood from a member of the Military Affairs Committee, that they had received information from you to the effect that all laws now on the statute books relating to veterans and the enactment of the pending bill would result in something like \$13,000,000,000.

General HINES. No; somebody misunderstood me if I said that. I haven't made such an estimate, but we were debating a bill before the Military Affairs Committee, which, if it had passed, would readily have brought it up to between \$13,000,000,000 and \$20,000,000,000. But the expenditures that are now on the books and are being paid with the variables on insurance, which the Government carries on the extra hazards of war, and administrative expense on insurance, that may run easily any year five or six hundred million dollars, or more, for that extrahazard protection. So far, the results have been favorable. The fund has been in excellent shape, but nobody can predict the total costs until you can see the end of the war; then you can make some calculation.

Mr. FISH. Your statement is, it is \$2,000,000,000, but with this bill going into effect, it may run up to five or six billion?

General HINES. Of course, if that bill goes into effect, it will immediately bring additional costs. I should say it would present at least \$200,000,000, even if the war demobilization doesn't start, because of various features there that the men are eligible for. There will be an increased hospitalization load. Few people realize that 58,000 veterans of World War II have gone into our hospitals up to date. Some 11,000 of them are in our hospitals now. That load is increasing right along.

The CHAIRMAN. Mr. Voorhis.

Mr. VOORHIS. General, first of all, along the line of the first question, I would just like to make this comment: I understood Mr. Green to say that the unions proposed to waive initiation fees with regard to returned veterans; I believe he said that.

General HINES. Yes.

Mr. VOORHIS. I don't mean that solves the problem the chairman raised, but I think that the record should be clear.

General, I would like to ask you this to be sure I understood your testimony. I understood that you suggested that there should, with regard to the transition period of readjustment and employment, be established a basic readjustment period by agreement?

General HINES. That is right.

Mr. VOORHIS. And then, as to that period, that the Federal Government should do one of two things: Either it should pay the States the difference between whatever the State unemployment compensation law would provide, and a flat rate that might be established, plus, of course, the total amount paid for people in uncovered employment?

General HINES. That is right.

Mr. VOORHIS. Or else that it should simply pay whatever the State rate was to the people who were not in covered employment, leaving the States to cover the entire load for those that are covered.

General HINES. You have the correct understanding of the two propositions that are now being studied by this Policy Board.

Mr. VOORHIS. How long do you think the readjustment period ought to be?

General HINES. I have suggested 18 months.

Mr. VOORHIS. Eighteen months. Well, then, isn't it inequitable not to make the length of time that the veteran is entitled to receive unemployment compensation at least as long as that?

General HINES. Well, that is a matter of opinion. I think I was asked the same question on the veterans' bill, and I think I suggested 18 months, but 2 years was taken for some reason.

Mr. VOORHIS. Well, the period provided now is 26 weeks?

General HINES. No; it provides 26 weeks within a period of 2 years.

Mr. VOORHIS. I see.

General HINES. That is another factor that you face in dealing with the war worker. Most States have agreed on 26 weeks, generally, in a given period. I would not disturb that as long as the States are operating apparently successfully under that.

Then you have only two factors—the length of the adjustment period, and the rate. Some will argue for a maximum rate and others for a minimum rate. The average rate of all States, as I recall looking at the last tables I saw, was about \$13 per week.

Mr. VOORHIS. Do you think that is going to be adequate?

General HINES. Well, no. I think \$20 is a better rate, myself.

Mr. VOORHIS. Would you make it the same across the board for veterans and war workers alike?

General HINES. Yes; I think if you fail to do that you will create certain resentments in a community which will not be helpful to anyone.

Mr. VOORHIS. May I ask you one further question? You spoke about the veteran's coming back to his community; that is, the able-bodied veteran, and I agree with what you say about that, so far as what his attitude would be. But how is he going to gear himself into the regular employment compensation system? Isn't there a problem involved in that?

General HINES. There is a problem, but shouldn't it be approached the same way as, for example, if machinery is set up to do one thing, we should not undertake to duplicate that machinery if we can have it done that way.

Mr. VOORHIS. I think that is probably right.

General HINES. Now, I haven't attempted to anticipate the passage of the G. I. bill. That is, I haven't attempted to try to work out regulations or how to do it because I wanted Congress to decide who was going to do it first, and then would be the time, enough time to work it out; but there has been some debate as to whether the Veterans' Administration should do certain things, or some other agency. Whatever agency does it, it should be done by the shortest possible business-like route and promptly, because relief in any form is not worth much unless it is promptly given.

The CHAIRMAN. Mr. Reece.

Mr. REECE. Mr. Chairman. Have you been able to estimate, General, the number of men now in the service who, upon discharge, may reenter high school and college with a view to completing their education and the number that might be placed in vocational training by the Veterans' Administration? That is, whether you have been able to estimate the number of those men that would be taken out of the, so to speak, employment group?

General HINES. My estimate of the number that will enter would be 100,000 per unit of 1,000,000 who serve. I have arrived at that figure, generally, based upon the ages of the men in service. However, certain questionnaires sent out, I believe by the War Department, would indicate that a higher percentage would undertake to go into schools, if these allowances, such as are in the Legion bill, are provided at the time. That is, the rates provided in that bill. If the men were simply provided their tuition and cost of schooling, I think the percentage would be very much less, probably 500,000 at most.

Now, vocational rehabilitation, as it is now set up, will depend, under existing law, on the number of men who come out of the service with disabilities and a handicap which would prevent them from carrying on in gainful employment.

Mr. REECE. But the two may not run the figure as high as one million and a half, do you think?

General HINES. Yes; that would be a very excellent cushion for reemployment if it does.

Mr. REECE. You made the statement, General, that many of the veterans would not be satisfied to return to their own jobs, which reminds me sometime ago of a cartoon showing a man with a major's insignia who, upon returning to his employer, identified himself as his messenger, which was a very striking way of conveying the thought which you had in mind, so that the legislation which we have passed guaranteeing the old jobs to these men is not going to be very satisfactory to them in the main.

General HINES. Well, we have already had experience with some; and one of the unemployment services told me that in one or two cases they have had to refer men to as many as five employers before they finally took the position.

Mr. REECE. What is the attitude, as you are able to estimate it, of the Government agencies themselves, with reference to that very problem? Take the case, for example, of, say, a young lawyer who probably had the grade of a junior adjudicator in the Veterans' Administration at a salary of \$2,600. He goes into the service and remains 3 or 4 years. He is hardly going to be satisfied to come back and go into your service as a junior adjudicator, when those whom he left in the same grade have much higher ratings.

General HINES. We will have to meet that problem, Congressman, as labor will have to meet it in labor organizations. In addition, you are now speaking of seniority rights of the man, and I think we will be able to adjust it. The law only requires that he go back to his old job or a comparable job with protection to seniority rights and some other benefits. Fortunately, the Veterans' Administration will not be bothered as much with that problem as some other employers, because we will be expanding naturally in this post-war period, but the employer that will have difficulty will be one who is contracting,

who has developed his program, as well as some of his men who have gone abroad and have developed a skill for something higher.

Mr. REECE. I would like very much to see you, in your position, make some canvass of the Government agencies to emphasize that point. Recently I had one demonstration. A boy who had long years of service in the General Accounting Office, on a salary of something like \$2,100, had gone into the service; he did well, and was discharged and returned. The General Accounting Office would not release him to any other agency to go in at a higher salary which he was well qualified to do, and was offered numerous positions, but forced him to go back in at his old salary, whereas those men whom he left in the service at that grade were on salaries of \$3,200, \$3,600, and \$3,800.

General HINES. I think that is a little unfair, and I think if a man is able, if he can do the job, he should be put as near as possible in the position he would have been in if he had stayed on the job. That is the fair way to go at it.

Labor has already had one or two examples of that, and it has adjusted it that way, but it has found this: That the progress has been so great and the expansion so great that the man himself has really had to settle it by saying that "I am unable to perform the duties of that higher job that my seniority would entitled me to," and has taken a lower job for which he could qualify.

Mr. REECE. And it is not unreasonable, probably, that private industry may rearrange the title of the position and bring a man in replacing the man who went into the service who had the title of superintendent, to bring a man in and give him the position of general superintendent, so that when the other man returns, would he be, under the law, entitled to his old position back with comparable duties or would he be required to accept a subordinate position?

General HINES. Well, the first requirement is to give him his old job back, or one equivalent. Now, fairness would dictate that you should give some consideration to the fact that this man had no choice, probably, about going into the service and if he had stayed he would have been in a certain position. Now, without any detriment to the people who have stayed home, I am sure that those adjustments can be worked out, but fairness has got to be the basis of the adjustment in applying any law.

Mr. REECE. Yes, sir.

The CHAIRMAN. Mr. Murdock.

Mr. MURDOCK. General Hines, I pester you a good deal by phone calls and personal appearances in regard to hospitalization. I was glad to hear what you said a moment ago in regard to the program ahead. I hope it is ample, but I have a fear that it is probably too low.

General HINES. I hope not. If it is, I will probably have to run pretty fast.

Mr. MURDOCK. I was especially pleased, General, with your answer a moment ago with regard to the educational program and that is that you have found existing institutions of training ample, effective, and that you propose to use them to the limit—

General HINES (interposing). Certainly.

Mr. MURDOCK (continuing). Without setting up any special facilities for training.

In regard to the reemployment, which is the big task, your big task, and our big thought, I would like to ask you this. Practically all the thoughts expressed by witnesses before this committee have been that the big job of reemployment shall be in private employment. Very little has been said here about public employment. Have you given thought to that, how much of this vast employment which is ahead of us will probably be done by private employers, and what portion by public employment?

General HINES. Of course, I am hopeful that wherever it is possible, private industry will absorb a great deal, because that means keeping up production, and more production means more employment.

The governors' letters, after you read them over there, will indicate to you that they are giving some thought to doing things in the post-war period that have been neglected during the war period.

Mr. MURDOCK. Yes; I just read what the Governor of Arizona said, and I was pleased.

General HINES. That will undoubtedly take in a number of people into public employment that are not there now. However, the overall picture of the Federal Government, as such, would indicate that probably 2,000,000 employees would go off the rolls when we are completely demobilized. Now, how many of those will be absorbed in activities that are necessary to bring about this reemployment. And the Veterans' Administration is bound to grow as we realize, but it will be small compared to the total number.

There is one other point in the picture to which I have given some thought, that you reminded me of, that I haven't mentioned. Many women have gone into employment, both aged and young, and, many women have added, I should say, four or five million people to the pay roll. How many women will stay in employment following the demobilization is one of the doubtful factors at the present time. Some employers have found that women doing men's jobs are more efficient than the man; that they do certain things better. Some of the women have discovered themselves that they can carry on well in employment, and will desire to do that. Of course, we are hopeful that many of them will return to their homes, and I think they will, but those are factors that we will have to study and probably will have to do some guessing on before we reach a fair answer.

Mr. MURDOCK. I think the thought of this committee is that the major part of the great problem of employment should be by private industry.

General HINES. That is right.

Mr. MURDOCK. But public employment should come along to supplement it to the extent necessary.

General HINES. That is right.

Mr. MURDOCK. I have one more question.

General HINES. I was just going to say that nearly every Governor, where they have a complete plan, could perhaps provide some form of public works to absorb; but one of our troubles is going to be that we are going to have more skilled mechanics than laborers, probably, when you get through with this job.

Mr. MURDOCK. I might say that in the Western States, the letters developed that there is more planning for this development, and that is logical.

General, had you given study to the matter of providing homes or possibilities for homes for veterans on Government lands?

General HINES. We have only touched upon that. It hasn't come up for any definite study, but I know certain studies are being made. I am not very favorable for any private project that would contemplate colonizing veterans; I doubt if they would want that. They are better off in their own environment, in their own communities. We tried something like that after the last war, and—

Mr. MURDOCK (interposing). You have had some unfortunate experiences with that?

General HINES. We had very unfortunate experiences with it in the last war. We set up veterans on farms all over the land—in Minnesota, Wisconsin, and other places.

Mr. FISH. How about the Alaska project? Was that for veterans?

The CHAIRMAN. I don't think so.

General HINES. No. But I do feel that there would be a marked increase in building construction—houses; most of the housing that we have done has been more or less of a temporary character to meet certain emergency conditions. Some of it is good and some of it will not be useful after the war.

Mr. MURDOCK. General, I should like to know about these studies that are being made as soon as possible because I feel that Uncle Sam has a vast quantity of land. Much of it is mighty poor land, though, but there is an opportunity of getting some of the men on to farms in the West where there are abundant opportunities for new farm homes for veterans in private ownership where each would be his own master in making his living on the soil.

The CHAIRMAN. One of the troubles of Uncle Sam is that the land is poor, and it would make a very poor project for the soldier.

General HINES. That is right. One of the troubles we will have in administering the large G. I. bill on the purchase of farms will be to be sure that the veteran will be buying a farm that will produce something rather than a worked-out farm.

Mr. WOLVERTON. Mr. Chairman, I am sorry I was late. I would like to refer, General Hines, from the beginning. Mr. Reece has already asked questions which you have answered which I was interested in. May I ask just one further question: What is your experience so far with respect to the attitude of industry to take discharged soldiers back into their employ?

General HINES. Excellent. Practically all of the large corporations have either contacted me or have issued statements to the effect that they want all of their veterans to come back. Many of them have come to my office and asked how they could contact the men that were in their employ as soon as the war is over. They want to get them back and put them into training courses of their own.

One of the outstanding actions was taken by Mr. Ford. He wrote me a letter and said he wanted all of the men that left the Ford Corporation to go into the service to return, that he had jobs for all of them, and he published that letter at the time. That has brought the same sort of reaction from many other corporations.

Mr. WOLVERTON. Do you have in mind any procedure that should be adopted as a result of your experience with reference to forcing industry to take men, or has it been such that you don't see any need?

General HINES. Personally, I do not feel it will be necessary. I think industry will be only too glad to take the veterans of this war back, provided they have something to give to them. They will take them back and comply with the law if the job is there, I am sure. But they are doing this at the present time: They are increasing their sales force with the idea of building up a backlog of orders, in order that production may be speeded as rapidly as they are permitted to go ahead, with peacetime production.

Mr. WOLVERTON. Of course, we can readily see that the difficulty has not yet presented itself; it probably will at a later date. The number that is now discharged is small in proportion to the number which will be, and the available jobs are great in proportion to what might be the case after the war. After that, the shipbuilding ends, for instance. The shipbuilding plants in Camden, N. J., have, I think, contributed between eight and nine thousand employees to the armed services. They are now at a very high point of employment, I think, twenty-five to thirty thousand. Immediately before the war, they were at the point of only employing a very few of these men that have come in and gone out. Now, that number is large as compared with the number which that industry employed prior to the war. I assume when the war is over there will not be the same need to continue with the building of ships, either war or commercial.

Now, I can readily understand that this presents a very difficult situation, because a company like that may not be in position to comply with the demand—

General HINES (interposing). That is right.

Mr. WOLVERTON. For the old jobs to be given back.

General HINES. That is quite so, and then it will be a problem if the job is not there. Then comes the problem of finding another job for that individual, and that problem is not the problem of the employer; he is not charged with that responsibility, but that is the problem on the part of the United States Employment Service.

Mr. WOLVERTON. Does our legislation now place upon any individual or department the responsibility of placing returned veterans in positions where their former employment may not be open to them?

General HINES. Yes, first, the Selective Service, under the law, is required to get the man his old job back, if it is available. If not, then they refer him to the United States Employment Service, and it is their business then to find employment for him.

Mr. WOLVERTON. It would be their business to find employment for him. Is there a duty or is the veteran entitled to any preference?

General HINES. Yes; generally, in Government, he is entitled to a definite preference.

Mr. WOLVERTON. I realize that that is the case in the Government, because of the preference that we have given by legislation. But when it comes to private industry, would the same principle apply?

General HINES. The law does not require private industry to give them a preference; but I have this feeling, Congressman, that industry will naturally give a veteran a preference, and I doubt if it will be necessary to legislate to get them to do it.

Mr. WOLVERTON. Well, so far as the Government agencies are concerned that are responsible for the obtaining of employment, such as the Employment Service, or whatever it is called, there is no specific

legislative responsibility placed on them for giving preference to a veteran applying for a job: is there?

General HINES. You mean the employer now on the outside?

Mr. WOLVERTON. I mean the United States Employment Service.

General HINES. Yes; there is a definite placement service for veterans included in the United States Employment Service, and it is their particular job to see that the veteran does get a preference in employment. That is what is known as the Veterans' Placement Service.

But there is no law that I know of, unless it may be a State or local law, that would require an employer to take a veteran ahead of someone else, although I do feel that their disposition, with respect to World War I veterans, and I feel confident it will be with World War II veterans, to give the man a preference if he is efficient and if he can perform.

Of course, there is one thing we will always have to keep in mind, and it is one thing that the United States Employment Service must keep in mind, that when business and industry are in competition, they can't just simply add people to their pay roll. They have got to produce, and they must be efficient; and the United States Employment Service should not send inefficient, unreliable employees to a company. If they do, the employers will not come back very many times for employees from that Employment Service, so that it is important that when we refer veterans to an employer that we try to pick a man who can fill the specifications for the job and who is at least sober and reliable. Otherwise, we will have great difficulty in getting the cooperation of industry in that program.

The CHAIRMAN. Mr. Lynch.

Mr. LYNCH. General, it is my recollection that under the Selective Service Act, all we did was to declare, as a matter of policy, that the employer should take back the veteran. There has been no provision for compulsory reemployment in that act; is that correct?

General HINES. Well, they have authority, as I understand it, to demand that if the job is there and the employer refuses arbitrarily to take the man back without good reasons for refusing, he can be taken into court and the court decides whether he should or should not.

Mr. LYNCH. Now, General, there is just one thing which disturbed me a little, and that was a remark I learned you had made at a luncheon yesterday, and which had been repeated here this morning, and that is your theory that apparently demobilization should be based to a certain extent upon the employability of the veteran at the time of his discharge.

General HINES. Not so much the employability of the veteran. What I did say and what I repeated this morning was that relationship between demobilization and available jobs merits very careful consideration on our part. In a given community, for example, let us take a community like Detroit, when demobilization starts that city will have at least a million people out of employment. Jobs will not be there. Now, to throw back into that city at that particular time men who are in the service while others could be demobilized who had jobs awaiting in their community, unless there is a real necessity for it, will neither be helpful for them nor for their community, and we ought to try to time the release of the men in certain communities to such situations.

Now, I might say that with that theory, the War Department does not agree. It feels that the demand for the men's return to their homes will be as it was in the last war—that they will want them back as soon as you can get them out. However, the War Department is considering some method of selection in demobilization so that those, say, who have had the longest combat service and the character of service and necessity for their getting out should be the rule in demobilization.

Mr. LYNCH. Well, now, assuming that your theory were carried out and you had a situation with a million unemployed in Detroit, that would virtually preclude the discharge from the Army of those people who had been inducted into the service from that city; would it not?

General HINES. Not all of them. It would probably hold back temporarily; and, mind you, these men are still in the service; they are still getting some allowances and pay; they are well housed and well cared for, though there may be some that would be employers from that area that you would want to get out. But what I am talking about is that we should gear our demobilization in some relationship to the problems existing in a given community, if it is possible to do that.

Mr. LYNCH. Of course, but it seems doubtful to me as to whether or not, in the first place, it is possible; and from my experience with the Army, in connection with the discharge of men over 38 and under 45, it would seem to me that would not work out very well, because I have had any number of cases of veterans of World War No. 1 who have volunteered for service in this war, and then when they wanted to get out every obstacle that was possible was put in their way.

General HINES. That should not be done except as found necessary.

Mr. LYNCH. Even the men 44 years of age in the Infantry, when they tried to get out, they had to furnish affidavits that they had a job; and they could not furnish the affidavits very well because they could not get home to look for the job and to get the job; and many of the men were kept in service for months and months as a result of Army procedure.

Now, it seems to me, if the Army is to regulate discharges in accordance with employment areas, that there would be a great deal of dissatisfaction among the veterans.

General HINES. You will find they won't agree. But we went through the other experience. We had men thrown in communities and they were very unhappy; it started a lot of things we had to do as a result.

Now where a man can be discharged, say he is an employer in Detroit, or he has a job, it should not be very difficult. It is more difficult now because the men are out of the country, but when they come back to these discharge centers, of course, you and I know that they are going to demand their discharge immediately. It may not always be the best thing for them to do. It is better to give them a furlough, although the Army is not keen to give them furloughs of any great lengths to go home, because it loses the control and the discipline of the men, so those two elements are undoubtedly those to be used by the services to discharge the men as fast as we can.

Mr. LYNCH. Well, General, don't you think that the veteran who has been in the Army for several years and feels that if he only gets a chance to get out of the Army he will get a job—and he may not have any immediate prospect—but he feels that he will be able to get a

job, and if you keep him in the Army because he happens to come from a community where there is a great deal of unemployment at the time, wouldn't you have a very dissatisfied veteran and wouldn't all his family be dissatisfied?

General HIXES. I hope not, and I hope the period will not be so long that he will become dissatisfied; but I have no doubt that your thought will prevail, because we have always apparently followed the practice of getting him out as fast as we could.

Mr. LYNCH. There is another thing I would like to ask you, and that is this: With respect to your experience with the disabled veterans in this war trying to get employment in private industry, do you find that there is any resistance on the part of private industry to take a disabled veteran back by reason of the increased cost of compensation insurance?

General HIXES. We have had up the question of whether there is really an increased cost of compensation. We have had all those companies in, and we are working with them right now on that problem. At the present time many disabled are employed. Comparison between the able-bodied and the disabled show slight differences. Among the disabled, the percentage of absenteeism is less and the attention on the job is better. I have some data on that that I will be glad to put on record.

Mr. LYNCH. If you would.

General HIXES. It is a study of a certain number of cases and is as follows:

"One recent survey made in a large manufacturing plant studied 685 handicapped employees in comparison with the same number of normal individuals. The records indicate 7.9 percent more normal workers resigned than handicapped workers, 7 percent more absences among normal workers, 5.6 percent fewer accidents among the handicapped workers, 7.4 percent more discharges for cause among normal workers, 4.6 percent increased earnings for the handicapped as compared with 4 percent for the normal workers." (Letter April 3, 1944, American Mutual Alliance.)

"Caterpillar" has approximately 800 handicapped persons in gainful and most useful work. This number is remarkable when one considers that this company builds heavy machinery, calling for heavy and light machine work, similar types of assembling, and grey iron and aluminum foundry work. Those called 'handicapped' by 'Caterpillar' are only those with major defects—loss of one or both extremities; marked deformities, congenital or otherwise; loss of one or both eyes; loss of hearing or speech; and those recovered from tuberculosis, heart disease, etc.

"Yes, the program works in the hardest, most callous test tube tube of them all—actual experience. The vast majority of these people have a production, safety, and absentee record far above normal. They are paid at the same rate as normal individuals, are shown no special favors and are in no way considered as accepting charity. They will be given the same consideration as any other employee in being retained on the job in the days following the war.

"The best answer to 'will it work?' is from the lips of 'Caterpillar' supervision reflecting positive company policy:

"Give us as many of this type of workmen as you can get." (Pamphlet the Caterpillar Tractor Co.)

Such statistics as appear to be available seem to substantiate the belief that physically handicapped persons generally prove to be sound investments when placed in suitable jobs. One study states:

"1. They are virtually draft-proof.

"2. They are often better for particular jobs than a normal person, e. g., workers deaf or hard-of-hearing are ideal for work requiring concentration in noisy surroundings.

"3. They don't shop around for better jobs. This reduces turn-over and makes for the better morale of a contented work force.

"4. They take better care of their work and pay more attention to it, thus increasing productivity.

"5. They are more appreciative of their opportunities, and hence more loyal.

"6. They are likely to have fewer accidents because they are accustomed to acting more cautiously. The statistical evidence available confirms this belief. Western Electric studied 685 handicapped workers in a 2-year period, finding that 23.5 percent of them were injured at work, as contrasted to 39.1 percent of the control group of nonhandicapped persons. The Pennsylvania State Bureau of Rehabilitation analyzed extensive automobile accident data and found that 0.6 percent of 29,000 physically handicapped auto drivers were involved in accidents against 4.5 percent of 2,000,000 drivers of normal physical fitness.

"7. Their attendance is as good as that of normal persons" (Letter January 17, 1944, Association of Casualty and Surety Executives).

"Of the 97 employers who reported on absenteeism 53 found it to be less for the handicapped; 39 found it to be the same in both groups; only 5 found it to be higher among the handicapped.

Of the 76 employers who reported on labor turn-over 63 found the turn-over rate to be lower among the handicapped; 12 found it to be the same in both groups; only 1 found it to be higher among the handicapped.

"Of the 87 employers who reported on accident rate 49 found it to be lower among the handicapped; 36 found it to be the same in both groups; only 2 found it to be higher among the handicapped.

"Of the 105 employers who reported on productivity 25 found output to be higher among the handicapped; 69 found it to be the same in both groups; only 11 found it to be lower among the handicapped." (Pamphlet study made by the Federal Security Agency.)

MR. LYNCH. Do you find at all that the insurance compensation rates have increased by reason of the employment of these disabled veterans?

General HINES. No; it has not; and the companies base their rates upon the experiences they have at certain plants. There is no fixed rate because you take on a disabled person. But the experience that they have in covering a certain group of employees in a plant determines the rate they charge that company.

MR. LYNCH. I know that, General. But I have been a member of the Council for Physically Handicapped Children, in New York, since 1925, and we have found that industry does not like to take physically handicapped people for the reason that their rates go up, and even without any experience of actual loss; and that on various occasions they have been notified by the insurance companies that unless some person was put into a particular office on the first floor where exit in case of fire would be easy, that they would, of necessity, have to increase the rates on those persons.

General HINES. There may be some particular firms that do that, but we have been dealing with the Casualty and Security executives. Here are some data that will undoubtedly be interesting to you.

One recent survey made in a large manufacturing plant covered 685 handicapped employees, in comparison with the same number of normal individuals (that study was made on two groups); 7.9 percent more normal workers resigned than handicapped workers; 7 percent more absenteeism among normal workers and 5.6 percent fewer accidents among the handicapped workers. There were 7.4 percent more discharges for cause among normal workers; and 4.6 percent increased earnings for the handicapped as compared with 4 percent for the normal worker.

Now, we have some further examples. For instance, the Caterpillar Tractor Co. sent this message: "Give us as many of this type workmen as you can." Those were all disabled. Of 97 employees who reported on absenteeism, 53 found it to be less for the handicapped, 39 found it to be the same in both groups, and only 5 found it to be higher among the handicapped, out of 97.

Of 76 employers who reported on labor turn-over, 63 found the turn-over rate to be lower among the handicapped; 12 found it to be the same in both groups; and only 1 found it to be higher among the handicapped.

Of 87 employers who reported on accident rate, 49 found it to be lower among the handicapped; 36 found it to be the same in both groups; and only 2 found it higher among the handicapped.

Of 105 employers who reported on productivity, 25 found output to be higher among the handicapped; 69 found it to be the same in both groups; and only 11 found it to be lower among the handicapped.

Mr. LYNCH. That is very interesting, General. If you have any further records on it—

General HINES (interposing). I would be very glad to furnish you with them, because it is a suggestion that we haven't exhausted by any means and we will have to go into it.

The CHAIRMAN. General, if you have any further data on that, we would appreciate it.

General HINES. I don't care to prolong the argument, but I was very happy Mr. Lynch raised the questions he did about the demobilization, because I realize that from the standpoint of economics, it might be very desirable to keep these men in the service when the war is over; but you and I know, from observation and from experience, that men in the service, men in the Army, when the war is over, are pretty much like a man in jail—there is one thing he wants, and that is out.

General HINES. I agree with you.

The CHAIRMAN. You are going to run into a lot of trouble if you try to keep these men in the service when the war is over, I think.

I wonder if either Mr. Folsom or Dr. Kaplan, of the staff, would care to propound a question to you, General Hines. I am sure they will be answered.

Dr. KAPLAN. I believe that our questions can probably be sent in writing to the General; but bearing on this question of communities that have had a heavy influx of workers, like Detroit, I wonder if the General would tell us what is being done at this time to gauge the size of that inflow of excess labor, to get some idea of the plants, on capacities of these workers, and what is to be done to clear out some of the civilians before the veterans come into the picture.

General HINES. To be frank with you, what we are doing at the present time is to get a real inventory of what the situation is there. Until we find out exactly what that is, it is going to be very difficult to plan.

The War Production Board is making a study of the matter at some of the plants. Of course, this organization that I have has not been in existence very long. We started on the 24th of February, and most of the work up to this time has been trying to get an inventory of where we are and what we have and wherever we should go from here.

Mr. FISH. You have no power to clear our labor?

General HINES. I haven't; no. But the whole problem that I have is to try to coordinate our efforts to see if we can improve conditions. The War Manpower Commission has that job at the existing time.

Mr. FISH. Do you assume you are going to get this power?

General HINES. No.

Mr. FISH. The Congress has not given you any power over labor.

General HINES. I do not expect it, and I doubt if it will be necessary. I think the more work we can do on the plane of cooperating with industry and labor, the better results we are going to get.

Dr. KAPLAN. Is the War Manpower Commission the other agency that is carrying on this inventory?

General HINES. No; there are labor statistics, and I have two people of my own starting on that very job.

The CHAIRMAN. Is there anything further? If not, General Hines, we again express our appreciation of the committee for your appearance here, and for your splendid statement.

General HINES. I will be very glad to keep the committee apprised of the policies adopted by this board and any developments that arise in this program.

Mr. FISH. And any recommendations.

General HINES. I will be glad to follow along where I can make something worthwhile.

The CHAIRMAN. We will appreciate it. The committee will stand adjourned until tomorrow morning at 10:30.

(Whereupon, at 12:35 p. m., the committee adjourned until 10:30 a. m., May 19, 1944.)

POST-WAR ECONOMIC POLICY AND PLANNING

FRIDAY, MAY 19, 1944

HOUSE OF REPRESENTATIVES,
SPECIAL COMMITTEE ON POST-WAR
ECONOMIC POLICY AND PLANNING,
Washington, D. C.

The special committee met at 10:30 a. m., pursuant to adjournment, in room 1304 New House Office Building, Hon. William M. Colmer (chairman) presiding.

Present: Representatives Colmer (chairman), Cooper, Voorhis, Lynch, Fogarty, Fish, Reece, Welch, and Wolverton.

The CHAIRMAN. The committee will come to order.

We are pleased to have Major General Fleming, of the Federal Works Agency, with us this morning.

General, we would be very pleased to hear your statement.

STATEMENT OF MAJ. GEN. PHILIP B. FLEMING, MAJOR GENERAL, UNITED STATES ARMY, FEDERAL WORKS ADMINISTRATOR

General FLEMING. I appreciate, Mr. Chairman, very much, the opportunity to come before your committee.

I want to talk about construction in the transition period after the war. I think it is most important that we give some consideration to this problem, because we know there are going to be millions of returning men and women from the armed forces and millions of men and women coming out of industry who are working exclusively for the war, and they will have to be absorbed some way or other into industry.

The construction industry is one of the largest industries we have. It represents, usually, from 10 to 12 percent of our national income. That means that if we are going to have a high level of employment in the transition period a large part of it has to be absorbed by the construction industry.

I hear all kinds of figures on what the national income should be to support our economy, ranging from 125 billions to 160 or 170 billion dollars a year.

Well, if we take an average, that one figure is as good as another, and it would be around \$140,000,000,000 as the amount we need as a national income to support our economy; those figures, of course, are fantastic to someone who just deducted the last check he paid this morning on a checkbook stub. But if we have to have an income of \$140,000,000,000, then from 14 to 18 billion dollars should be represented by the construction industry.

The construction industry, however, can't just start working tomorrow on a project. We know that. Construction has to be planned well in advance before any work can be done.

I lived through December of 1933 as Executive Officer and Deputy Administrator of the Public Works Administration, which, under the N. I. R. A., had appropriated to it \$3,300,000,000 for a comprehensive program of public works, with the injunction that we were to put people to work as rapidly as possible to take up the big unemployment. Well, nothing had been planned. We had the money, but we had to wait for plans, for legislation for raising funds, for acquiring sites, and, actually, it was 18 months after the bill was passed and funds were available before we had as many as 100,000 men at work at non-Federal sites, simply because nothing was ready. Construction has to be prepared for well in advance, and nothing had been done.

The CHAIRMAN. Pardon me, General, when was that?

General FLEMING. December in 1933, under the N. I. R. A., title 2 of that, you recall, was the public-works program.

Well, because we could not put people to work under this program, since we did not have the plans, something had to be done to absorb the millions of people who were unemployed, and the first thing was the C. W. A., which was later followed by W. P. A., which provided "made" programs of work, and, as you recall, in the early stages, they were nothing more than raking leaves from one side of the park and back again to the other side.

In the later days of W. P. A., when there was opportunity to plan ahead, useful, enduring structures were built as real monuments and useful things for this country. But if we don't get planning done ahead, we may be led back into another thing like the W. P. A., and, certainly, none of us wants to see that. Therefore, I think any planning for public works should be done now while there is opportunity and while there are engineers and architects available to do it.

Of course, in the construction industry, about two-thirds is done by private capital, and about one-third by public capital. But, so far as private industry is concerned, I can't find out, and nobody has made any real study of the situation, what it has available and ready to go.

I have had an opportunity to look a little into what public agencies are doing in preparing plans. But that information is pretty scanty. I hear of cities and States that have well perfected plans for public works which can be thrown into action immediately as the need arises. Whenever I heard of that, I have sent somebody out and gone to the city or State engineer and said, "Let's look at the blueprints of this schoolhouse or this hospital; that bridge that you are going to build." Well, they haven't any blueprints; they haven't any specifications. They have got a program of construction, but they haven't things down in the blueprint specification stage where they can go to work. They haven't, in many cases, selected the site. They have an idea that they would like to have the school in this general locality, but just where it is going to be they are not quite sure.

The first thing to do is to make a survey, select and acquire a site. Only then can the engineers and architects sit down and begin a design. They have to know the foundation; they have to know what the topography is; and very little of that kind of work has been done.

I think the way to act is to provide some stimulus to the communities to get their plans ready now, and the best stimulus I know is cash. Somebody, I wish it had been I, made the statement that if you want the dough to rise you have to put some yeast in it, and we know that

some of these cities have the dough maybe in a certain amount, but they aren't going ahead; they aren't planning; they don't know what the Federal Government is going to do. They would like to know whether they will get a loan from the Federal Government, and I think Congress should state whether it is going to stimulate this planning or not.

If Congress does authorize some sort of loan or grant to these cities, just for planned preparation, I think you would see a lot of things get into the blueprint and specification stage right now before the war is over.

Planning is normally about 4 percent of the final cost of your project in construction, so the amount of money going into planning is not great. I think something probably should be done to stimulate private capital to get its plans ready also. How that can be done, I don't know; I am not familiar with it at all. Maybe some guaranty or some insurance of risk capital—something like the F. H. A.—might be helpful in stimulating private industry to go ahead with its planning.

I think also this might be a good time to review building codes in various States and cities which, in some cases, have been forced on the public by pressure groups and contain items which make actual building very costly.

I happen to know of one place where, in school erection, building codes require so many toilets. Well, they have about four times as many as they ever need. But the people who handle those supplies probably some time or other were able to get that into the building code. We can save a lot of money if building codes are reviewed and made a little more realistic than they are at the present time.

In the Federal Works Agency we are doing something. We have an appropriation of \$500,000 to the Public Buildings Administration for studies on future building, and some of the studies we are making, I think, will result in great benefit to the whole construction industry.

Just a little thing like designing, so as to make cleaning easier, for one thing. If we could save in Washington 1 cent a year per square foot on the cleaning of the office space the Government occupies, we would save the Federal Government half a million dollars a year.

For roads Congress has made available in two appropriations—one of \$10,000,000, the other an authorization of existing funds of \$50,000,000—for advances to States, counties, and cities on a matching basis for planning. That makes a total of \$60,000,000 of Federal funds which, if matched with local funds, gives you a capital of \$120,000,000 for planning, which should produce a program of about \$3,000,000,000 in road construction in the post-war period. That is the only hopeful thing I see on the horizon at the present time.

The Public Buildings and Grounds Committee has been holding hearings for a long time on a public works program, or the stimulation of a public-works program, sometime in the post-war period. It has not yet reported out any bill, but I really believe some kind of a bill should be reported out at this time to stimulate planning. And by planning, I don't mean dreams, idle fancies, and pretty pictures, but all the blueprints, all the specifications, all the contract documents, all the legal preliminaries, so that these people will have these things ready, ready on the shelf to be taken off any day, let a contract and say, "You start digging here tomorrow." That is the kind of planning I would like to see done.

I think that is all I have in the way of a general statement. If anybody wants to ask questions, I would be glad to answer.

The CHAIRMAN. Yes, General, I am sure we will all want to submit some questions to you.

Of course, we get into the question of post-war planning. My observation has been that the average community, the average state of things of post-war planning has a gigantic public-works program. When we realize that at the height of the W. P. A. we had only about 3,000,000 people on the Public Works pay roll, and we need to have jobs for some 53,000,000 when this war is over, we realize that that is not the answer to the post-war program. I think you will agree with that.

General FLEMING. I do.

The CHAIRMAN. Now, what this committee is trying to do is to find that answer. I think this committee realizes that there must, of necessity, be some public-works program. My own personal point of view is that there should be plans for that, as you indicated, only to take up the slack, and it is not the main objective but rather a cushioning program.

General FLEMING. I agree with you absolutely. But we don't know what the slack is going to be, and I think the public-works program should be as big as we can possibly make it; not that we will necessarily use it, but it is the idea of having that on a shelf as insurance to industry that there are going to be people employed to buy their products; and I think it is paradoxical that the larger your shelf of public-works programs is, the less you will have to use, because if industry knows it is there, that people can be put to work, it is going to go ahead and retool, start manufacturing its products, because it knows there are going to be buyers. It is really insurance, too; the bigger you have it, the better off you are in the way of insurance.

You and I pay insurance on our houses and automobiles, but we don't feel badly if the house doesn't burn down or the automobile isn't wrecked. I think people will never feel badly if they have a big shelf, because some day they are going to use it anyway.

The CHAIRMAN. General, I have no argument with you about the shelf; but I am sure we all appreciate the fact that at that period to which I referred a moment ago, the national debt was a very small amount as compared with what it will be after this war. Now, there is bound to be some limitation in the ability of the Federal Government to pay out money. In other words, there is bound to be a bottom in the barrel of the Government, as well as the individual. Now, we can't just start out on a gigantic public works program.

General FLEMING. No, sir; nor have I ever advocated it at any time. All I am advocating is that we prepare the plans for a public works program—a national public works program—which will be financed by the States and municipalities. There are many things in the way of self-liquidating public works they can build and get their money back.

The CHAIRMAN. General, as I said, I am not arguing about that. What I am trying to do is to make and regulate my own views on this matter, which, I take it, are not far from yours, as to our ability to do these things.

Now, to be specific, I was interrupted a couple of times when you were testifying, and I am not sure whether or not you stated just what

your specific recommendation was as to the Federal Government's contribution in the plan.

General FLEMING. I think, as I said, that you need some yeast to raise the dough, and that yeast is a Federal loan or grant to cities to help prepare plans and, as I said, the plans represent about 4 percent of the cost of the final project. If the Federal Government went in, say, on a matching basis, it would be only 2 percent; I mean, even if it was made as a loan.

New York State is doing that with a State program; they have a State appropriation. Congressman Lynch could probably tell me how much money is involved. I am not sure how much it is, but they are making allocations to public bodies in the State—2 percent of the final cost. The local public body puts up the other 2 percent, and they are preparing plans, so New York State is doing well. New York City is doing exceptionally well; it is putting its own money in and drawing up complete plans and specifications for a great, big public works program, but Mr. LaGuardia says that when it comes time to build he doesn't know where he is going to get the money.

The CHAIRMAN. That was going to be my next question. I was going to ask whether it was going to be totally State financed or if they were expecting a Federal contribution. I imagine Mr. Lynch can tell us about that, also.

General FLEMING. I think Mr. LaGuardia has made a statement that he cannot go ahead with a building program unless he gets some Federal help.

Mr. LYNCH. I think that is true also of the State programs, too.

The CHAIRMAN. I am quite sure it is. Do you have any recommendation, General, on what the Federal contribution should be?

General FLEMING. Oh, as I say, I think it should be about—

The CHAIRMAN (interposing). I mean on the construction, and not on the planning.

General FLEMING. No, sir; I don't think we have come to that stage yet. Maybe a Federal contribution will have to be made at a later time, such as was done in 1933.

The CHAIRMAN. Don't you think before the States and the other subdivisions of Government can very well plan, that they should have some idea of about what the Federal contribution is going to be?

General FLEMING. No, sir; they can plan without knowing that, because that—

The CHAIRMAN (interposing). Well, I don't know. It seems to me that if I were going to build a house, as an individual, I would want to know something about my budget. I would want to know where I was going to get the money.

General FLEMING. Not if you knew that you had to have a house—and they know in their States and cities that there are many things they have to have which they have postponed by reason of the war when they can't get the materials. They know they have got to have a hospital; they know they have got to have a new school built; they know a street has to be improved; a new water works built in some subdivision; or a new sewer line or sewage-disposal plant. They know that some day they have to have such things, and if they know that, they can certainly get their plans drawn now and look forward to some future time for the money to build them.

Mr. COOPER. The point is, then, General, that wise and sound planning of local and governmental units, in your opinion, should be based on what they need and have to buy?

General FLEMING. Certainly; yes, sir.

Mr. WELCH. The Federal Government should also be prepared and have on hand a large public-building program in case you have to resort to it in order to take up the slack of unemployment?

General FLEMING. That's correct, sir. We have perfected a program of Federal public buildings, but our funds were tied up by reason of the war, and we were not actually able to put them down in the form of blueprints and specifications. We are endeavoring now to get clearance on some of those funds, so that we can be actually drawing the plans.

The CHAIRMAN. Well, General, I think it is very well, and I am fairly in accord with your views about the necessity for the shelf of planning, but it seems to me that it would also be essential for the proper planning for the various subdivisions of Government to know where they were going to get the money, what they could expect in the way of Federal contributions, but I shall not argue that.

General FLEMING. Well, as I said, I don't see how you can figure it out now. We don't know how long the war is going to last; we don't know how much we are going to spend; we don't know at the present time what the finances of the States and municipalities are going to be when this war is over. We know that the Federal debt is going up and up all the time; we know that most of the municipalities' debts are not going up, but there are still many municipalities which are in very bad shape. The only thing they have to depend upon is the ad valorem tax; the Federal Government is taking away the rest of their money in Federal taxes so they are not building up any great reserves; but their credit is different than it was in 1933. Then the cities had no credit and the Federal Government had a lot of credit. When this war is over, maybe the cities will have better credit than the Federal Government.

The CHAIRMAN. You don't agree with the idea that the subdivisions of government—States, counties, municipalities, and so forth, are better off, comparatively, than the Federal Government?

General FLEMING. Their credit is better, I think, or probably will be when the war is over.

The CHAIRMAN. My understanding is that is true.

All right, Mr. Voorhis.

Mr. VOORHIS. I just wanted to interpose and say that is inconceivable. How could the credit of the States and cities be better, basically, than the Federal Government?

General FLEMING. It will certainly be a lot better than in 1933.

Mr. VOORHIS. No doubt. But do you quite mean that you think the credit of any city or State within the United States could possibly arise above its source which, after all, is the Federal Government?

General FLEMING. I think, relatively, you are right.

The CHAIRMAN. I thought that was the word that I used. It may be, of course, anyway, we are getting at the question of States' rights.

Mr. VOORHIS. No; I don't think you do.

The CHAIRMAN. But at any rate the point I was trying to emphasize was that I think the Federal Government has some limitations also as to how far it can go in this program. Of course, as I said, our

whole idea here has been to proceed on the theory, if we could stimulate private industry to the point that this public-works program be more or less negligible, the country would be much better off.

General FLEMING. That is right; I agree.

The CHAIRMAN. General, right along that line, I am going to ask, have you given any thought to the possibility of stimulating private planning along the same line?

General FLEMING. Well, I haven't given much thought to it, Mr. Chairman, because I have been thinking more along the line of stimulating the public planning.

The CHAIRMAN. That is correct.

General FLEMING. I have thought, and, as I said in my opening statement, that maybe some kind of insurance of risk capital, something like the F. H. A. for private building of houses, might be used to stimulate industry in its construction program.

The CHAIRMAN. It seems to me that field will well bear some study with the idea that the more we can stimulate private industry, the less we will have to depend upon the Federal Government.

Mr. Cooper?

Mr. COOPER. No.

The CHAIRMAN. Mr. Fish?

Mr. FISH. No.

The CHAIRMAN. Mr. Voorhis?

Mr. VOORHIS. Yes, sir; I have a few questions. General, when you spoke about the national income of 140 billions, did you mean the national income or the national gross production? What I mean is, did you have in mind a figure representing the amount of income actually paid out to the people in the country as wages, profits, salaries, rent, and so on, or did you have in mind total pricing of all that is produced?

General FLEMING. What I had in mind was the total pricing.

Mr. VOORHIS. That would correspond to the present figure of one hundred and eighty or one hundred and ninety billion dollars, wouldn't it?

General FLEMING. I think so; yes.

Mr. VOORHIS. When you said that the construction industry ought to account for somewhere between fourteen and eighteen billions of this, did you mean that that would be the construction industry, both public and private?

General FLEMING. Both public and private.

Mr. VOORHIS. I see.

General FLEMING. Because normally construction industry has represented about 10 to 12 percent of the national income.

Mr. VOORHIS. Yes. And reverting back to the chairman's point, I just wondered whether part of the misunderstanding that has arisen on the question of public works hasn't stemmed from a misconception into which, I think, many of us fell in the past where we conceived that the construction industry alone could balance the economy if it were kept at a high level, and obviously that is not true, is it?

General FLEMING. No, sir.

Mr. VOORHIS. In other words, our objective might be your own attempt to make certain that the construction industry itself is stabilized and used to the wisest possible extent, to be accelerated in times when other types of work are slack, and reduced in times when other

work is in full, going ahead very rapidly. Would you think that was sound?

General FLEMING. I think it is sound. You can do it in the public construction part, certainly.

Mr. VOORHIS. Then I wanted to ask you this, General. When and under what circumstances do you believe that public construction should be started?

General FLEMING. I think it should be started in any particular locality when the needs, employment needs, dictate it. There is a certain amount of public construction which has to be done regardless of this postponed work I talked about. It includes deferred maintenance, which is costing more and more money all the time. That should be taken care of, but there are certain types of desirable public works which we should have on the shelf in a reserve so that we can simply take off what is needed at the time in that particular locality to provide employment.

Mr. VOORHIS. Well, would you say that just as soon as the employment index starts to decline that we should immediately begin on such a program?

General FLEMING. I think so. We ought to make a start on it.

Mr. VOORHIS. Do you believe that under those circumstances it will be, in the long run, very much cheaper than if you wait until you have a considerable volume of unemployment already started in a downward spiral?

General FLEMING. Certainly; there is no doubt about it.

Mr. VOORHIS. But you do agree with the general point of view that public works alone are not by any means an adequate answer to the unemployment problem?

General FLEMING. I do; and also that it should not compete with private industry where private industry needs the people and materials.

Mr. VOORHIS. I agree with that, too. I don't suppose that you wanted to get into the discussion of housing, or are you willing to do that?

General FLEMING. Well, housing is a little outside my field. We had at one time in the Federal Works Agency the United States Housing Authority, but it was absorbed in February 1942 by the National Housing Agency, and so I haven't really given a great deal of thought to it.

Mr. VOORHIS. I just wondered whether that might be one field in which we might hope, at least, for a considerable expansion of a private nature shortly after the war.

General FLEMING. Well, I think undoubtedly there will be an expansion of it; and there are all sorts of indications.

I had lunch with Mr. Kaiser the other day. He has made a poll out on the west coast to see what people wanted most after the war, and about 35 percent of them indicated that the thing they wanted most of all when this war was over, and what they would spend first on, was a home of their own, a house.

Mr. VOORHIS. Is Mr. Kaiser going to start building some homes?

General FLEMING. I would not be surprised if he did.

Mr. VOORHIS. I think that is all, Mr. Chairman.

The CHAIRMAN. Mr. Welch, did you have anything?

Mr. WELCH. General, have you followed the type of public works program to be prepared by the States and cities?

General FLEMING. Well, I follow it as closely as I can, Mr. Welch, and I have been rather disappointed because most of the programs have been just dreams, fancies, pictures of what they want. They haven't things down in the stage where they can start building.

Mr. WELCH. They haven't reduced it to blueprints?

General FLEMING. No, sir.

Mr. WELCH. Do you think they should?

General FLEMING. I certainly do.

The CHAIRMAN. Mr. Lynch.

Mr. LYNCH. General, isn't the present difficulty just this: That many of these municipalities and a good many States have yet to set up planning boards?

General FLEMING. I think that is one drawback; yes.

Mr. LYNCH. One of the reasons is that either they haven't got the foresight to do it themselves, or they haven't got the money, or some such reason, don't you think that is true?

General FLEMING. I think it is probably lack of foresight more than anything else.

Mr. LYNCH. And unless they use foresight in the planning boards, they are never going to get anywhere insofar as post-war construction is concerned until the disaster is on them, if there is any great unemployment at that time?

General FLEMING. That is true, but there is still a great deal of deferring of the work by many of them by reason of the war, and a great deal of this planning could be gotten into the blueprint stage now without a planning board to set down any master over-all pattern. Of course, if you have the master plan, that is fine.

Mr. LYNCH. Don't you think it is better to have the master plan?

General FLEMING. Certainly, I do.

Mr. LYNCH. Now, you mentioned something before that which to me was very significant. That was this: That when C. W. A. first started in on the antecedent organization to W. P. A., that in the beginning there was no plan of work, but as W. P. A. continued their plans had been developed, and toward the end they were putting up worth-while construction?

General FLEMING. That is right.

Mr. LYNCH. And that is going to be the same situation unless the States, municipalities, and the Federal Government plan now for post-war, don't you think?

General FLEMING. That is what I am afraid of, if we don't get plans ready now.

Mr. LYNCH. There is something that disturbs me, and that is this: We have Federal planning insofar as roads and Federal public buildings are concerned, but that will take but a comparatively small number of men and a comparatively small number of dollars.

General FLEMING. Well, you have some also in the rivers and harbors, and flood controls where some advanced planning is being done; something in reclamation is also being done.

Mr. LYNCH. But this post-war construction job is something more than for the Federal Government?

General FLEMING. Oh, absolutely; the Federal Government's part is very small indeed.

Mr. LYNCH. Now, if you take the States and municipalities, and if you have Federal aid to any extent, there must be some kind of a Federal bureau set up to handle that feature of the construction, don't you believe so?

General FLEMING. You already have one, I think.

Mr. LYNCH. Well, I mean whether or not it is a present organization or a future one, and whatever Federal organization takes that over, it has to be an organization that is going to be broadminded all the way through, insofar as construction is concerned, isn't that correct?

General FLEMING. That is right.

Mr. LYNCH. I mean, for instance, if you had just a Federal agency that was devoted to roads, or rather had a high inclination toward roads, and not so much toward housing, that probably would not work out well, would it? Any more than if you had a housing organization that was inclined more to housing than to roads? What I mean is, what we need above all things is a broadminded Federal organization that will take advantage of all the various forms of construction that will give employment to the people?

General FLEMING. I think we have that practically in the Federal Works Agency, with our past experience, because we have roads, we have public buildings, we have the old P. W. A., we had W. P. A., and the Housing Authority, so we have a pretty fine organization with many sides, and we have had the experience of dealing with the cities and local bodies.

Mr. LYNCH. Are you familiar, sir, with H. R. 2783 that I introduced?

General FLEMING. Yes, sir.

Mr. LYNCH. I know you are familiar with it because we discussed it on the radio together. You will recall, then, part one of that has to do with the setting up of planning boards. I think in our discussion you were somewhat in accord with it although not in accord with the distribution of the funds, as I remember.

General FLEMING. I am. I was generally in accord with the idea of setting up the planning boards, but I think the time now is so urgent we cannot wait for that. To interpose that first is going to make a delay. We are faced with an emergency, as I see it. We don't know when this war is going to end, but it looks to me as though it will possibly end in two phases—the European and then the Pacific phase. The end always comes quickly, and it might come any time, and we will be faced with a real emergency when the war ends. We can't wait to call up a beautiful situation before we go ahead and start doing work.

Mr. LYNCH. Wouldn't it be possible to have the State go hand in hand with the planning boards, and also on the specific constructions that will be necessary at this time?

General FLEMING. They are advisory only at this stage and do not have any mandatory powers.

Mr. LYNCH. That is what I have in mind, that they be advisory.

General FLEMING. It would be helpful if they had real power to act.

Mr. LYNCH. Under H. R. 2783 it provides for advances to the municipalities and States for specific construction and repayment from the first funds appropriated by the political union. Your thought is a little different on that, I take it?

General FLEMING. No; I said an advance; but whether it should be a grant or loan, I don't know.

Mr. LYNCH. What I mean, General, is this: Do you think that the outright grant would be, oh, say, 2 percent of the cost of planning, would be very much of an incentive to the municipalities or States for any specific construction?

General FLEMING. I really think the outright grant would be more of a stimulant to planning right now than a loan. That is my personal view.

Mr. LYNCH. What number of people do you figure could be employed on the construction work?

General FLEMING. In order to have reasonably full employment after the war, the total annual national income would have to approximate \$110,000,000,000—at 1940 prices—or \$140,000,000,000 at present price levels. Construction would represent about 10 percent of the total or between eleven and fourteen billion dollars. This would furnish about 3,000,000 on-site jobs and about 4,500,000 off-site jobs. Public construction would be about one-third of all construction, or between \$3,500,000,000 and \$4,500,000,000, and would furnish about a million on-site jobs and 2,000,000 off-site jobs.

Mr. LYNCH. Now, with respect to the State planning, you mentioned before that you were rather disappointed not only with State planning but municipal planning. It is a fact, is it not—and I just wanted to bring this out more clearly—that when you or anybody connected with the Federal Government, interested in future construction, asks these various cities and States what projects they have ready for post-war, all they have is the idea?

General FLEMING. That is right.

Mr. LYNCH. And that in most cases there isn't a blessed thing down on a blue print with respect to actual construction.

General FLEMING. In most cases there is nothing there. There are a few notable exceptions, like New York City.

Detroit is making progress, but as a whole, it is very disappointing to find most of the cities haven't any more than the idea that, for example, they want a sewage-disposal plant some time, but where it is going to be and what it is to cost, what the design is to be, they haven't the faintest idea.

Mr. LYNCH. It is your firm conviction that if some aid were granted to these political units, States, and municipalities within a comparatively short time, some blueprinting would be done in anticipation of post-war improvement?

General FLEMING. I do think so. I know of a city where the mayor boasted he had plans all ready for a great bridge across a stream, that they could start to work on it tomorrow, so we went over and looked at it. He had a line drawn on a map. That was the extent of the planning for that bridge.

Mr. LYNCH. That is all.

The CHAIRMAN. Mr. Wolverton.

Mr. WOLVERTON. I suppose that might be explained as campaign oratory.

General, is there any prepared program under the Federal Works Post-War Act if the necessity arises? I spoke of necessity; I mean from the standpoint of providing employment. This committee is seeking very diligently to find a way of enabling private industry to take up the employment immediately upon the conclusion of war so

that there will not be any great lapse in employment as between a war activity and the peace activity.

A few days ago we reported out of this committee a bill that we think will go a long way to help. I refer to the war-termination contract bill. But being as optimistic as I try to be, I am fearful that there will be a period between the cancellation of war contracts and the time when peacetime activities will be taken up in which there will be unemployment. I am fearful of it.

General FLEMING. So am I.

Mr. WOLVERTON. No matter with what care we endeavor to project ourselves into the future and deal with the problems that we conceive as likely to arise, and for that reason I am asking if there is any prepared Federal public works program that could be immediately, upon the conclusion of war, thrown into the breach, so to speak, to take up some of that possible unemployment?

General FLEMING. Well, I think you would be disappointed in the small amount that is prepared. The one hopeful thing is in roads, where we have this \$60,000,000 of Federal funds which can be matched with the States to prepare plans for roads. Even there the States have not taken full advantage of these funds. The allocations are in our hands, ready to be made to them any time they want to match, and they have not come in; some haven't taken any at all.

Mr. WOLVERTON. Well, my question is not directed just at this moment to public works that were to be carried on by a State or local municipality; I am speaking now, first, of Federal works that would be distinctly within the province or jurisdiction of the Federal Government.

General FLEMING. I don't think there is a great deal of that. I know that the Army engineers have had funds available to them for preparation of plans for rivers and harbors improvement and flood control.

The Bureau of Reclamation not long ago issued a statement as to what it was working on. We have in Public Buildings some funds which we would like to use in preparing for a public-building program; but altogether it doesn't make a very big program. You can't depend so much on the Federal Government. You have got to have your dependence on a public-works program out in the field.

Mr. WOLVERTON. I realize that there is a limit to what might be expected of the Federal Government; that a necessity rests to supplement it with the State and the local work; but I am first directing attention to that which comes directly within the province of the Federal Government.

As a simple illustration, you say post-office buildings. That is just by way of illustration. It would come entirely under the jurisdiction of the Federal Government, so that I am asking if there is any Federal works program for use in the post-war period to take up the slack that there might be in employment immediately upon conclusion of the war.

General FLEMING. No; there isn't. We have in Public Buildings a program of around about \$200,000,000 of post offices and works of that kind—purely Federal. But we have not had funds available to us to draw the plans for those. We are making an effort right now to get the funds released so that we can do that. We have the appropriation; it has been made to us for these, but the funds are

in such shape that we cannot utilize them at the present time to employ architects and engineers to draw the plans.

Mr. WOLVERTON. What I have in mind is this: Suppose the war would end today; we realize that there would be immediate cancellation of contracts to such an extent that great unemployment would probably result. Wouldn't it be helpful under those circumstances if the Federal Government immediately had ready to let contracts for the building of public buildings or other public works?

General FLEMING. Absolutely.

Mr. WOLVERTON. Then, you would recommend that Congress give consideration to the giving of funds that would enable those plans to be perfected to the point where they could immediately be put into operation?

General FLEMING. Certainly, I do.

Mr. WOLVERTON. Do I understand that you have made an effort of that kind, to get funds for the purpose—

General FLEMING (interposing). We are, as I said, making the effort in the public-buildings field at the present time, which is one of our activities.

Mr. WOLVERTON. How long does it take to prepare plans when you have the necessary help and the necessary funds? What portion of time would that take up—1 month, 2 months?

General FLEMING. It depends on your structure; it might take a year.

Mr. WOLVERTON. Well, all of that illustrates to me the necessity that the sooner we would start in preparation of those plans, the better it would be, because when the time comes to provide employment, if you then have to start to draw your plans and your specifications or the giving of contracts and that sort of thing, that would take considerable time, and that project, for instance, would not be immediately usable?

General FLEMING. That's correct.

Mr. WOLVERTON. Whereas, if that program was already in the blueprint stage, prepared, specifications drawn, and all you had to do was immediately ask for bids, why then the time would be much less and it would be more helpful?

General FLEMING. Certainly; the Federal Government ought to lead the way.

Mr. WOLVERTON. That is just exactly what was in my mind, General. You have laid some emphasis upon the States and upon local municipalities, but it seems to me that the Federal Government, at least, could do its part.

Then, the next question that I was going to ask was this: What can we do in the matter of Federal legislation that would provide an incentive to the State or local municipality to make that preparation which I have indicated should be done by the Federal Government with respect to its public works?

General FLEMING. Well, as I said in my statement, I think you have got to stimulate them with money, give them a financial stimulus, either by a loan or grant for the preparation of plans.

Mr. WOLVERTON. You have spoken of New York City and the State of New York; there are many other instances that you might have used just as well as an illustration where they have grandiose plans of the future. But my experience has been the same as yours, that it doesn't go very much beyond the picture stage.

General FLEMING. Well, fortunately, in New York, it is going to be more than the picture stage; they are actually acquiring the sites, making plans, drawing blueprints, specifications, and getting contract documents ready. They are the very outstanding exception.

Mr. WOLVERTON. You are speaking of the State of New York and not the city of New York?

General FLEMING. Both city and State.

Mr. WOLVERTON. I gathered from what you said that Mr. LaGuardia said he didn't know where the money would come from. I assumed that was for construction.

General FLEMING. That was for construction; yes. But their plans aren't grandiose; they are down-to-earth plans for city improvement. They have an exhibition upon Park Avenue and Fifty-ninth Street of what they propose; i. e., schools, hospitals, playgrounds, roads, and water—things that are really needed in that city.

Mr. WOLVERTON. There are many communities that have committees appointed that are making studies of those matters, and they can more or less readily agree among themselves as to what would make it an ideal community by the additional construction that they have in mind. But my experience with them, while limited, is enough to indicate that they don't get down to the point of preparing for it.

Now, their hesitancy to do so may be due to the fact that they don't know where the money is going to come from to construct, even if they did have plans. However, it would seem to me that there could be Federal participation in the preparation of plans, and legislation to deal with the other question as the time develops and the conditions require. We ought at least to encourage them to draw the plans and specifications and broadly to start.

Now, what kind of a Government incentive would you suggest? You have said it must be a money incentive. I am trying to think you are right because that incentive has been used to such an extent in the past that it would be very hard to change the thought of individuals along that line suddenly, so that I am inclined to share with you it should take that form.

Have you any idea as to what proportion of the cost of a building, we will say, for instance, is represented by the preparation of plans and specifications?

General FLEMING. About 4 percent.

Mr. WOLVERTON. Four percent. I think, if the Federal Government participated to the extent of half of that, it would stimulate these cities to go ahead and get their plans now.

It seems to me that presents a view worth following through to see what could be done because unless we do something along that line we will be cut at a time when people naturally look toward the government, either State or local, to provide the work, and, as has been indicated by Mr. Voorhis and Mr. Lynch, you don't want to get into another leaf-raking program that was necessary because there were no plans—

General FLEMING (interposing). That is right.

Mr. WOLVERTON. As time went on, the work that was done by W. P. A. did become more worth while. That is the thought that I have in mind.

There are some projects that are both Federal and State in character. Take, for instance, the plans that are being considered by the Interstate Commission for the Delaware River Basin, New York, Pennsylvania, New Jersey, and Delaware, with respect to sewage systems in that great area. It would look to me as if that might be a combination of States and localities as well as the Federal Government. I just feel that with all of our planning with respect to industry we are possibly overlooking a situation that might become necessary where we will have to fall back on Federal, State, and local work to supply employment.

General FLEMING. Well, I think you are right, sir, as to many of these projects, certainly in the public health field. A sewage disposal plant, or a lack of one in one town, may affect other towns down the river.

Mr. WOLVERTON. That is right.

General FLEMING. And so on. It isn't just a local thing—it may be State-wide—it may be Nation-wide, as it affects various States on that particular stream.

Mr. WOLVERTON. That is right.

General FLEMING. There is Wisconsin, it has a very fine stream pollution program which they have put through in the whole State. The water coming out of Wisconsin into the Mississippi River has all been treated and is pure, and since some of the cities in Minnesota, Iowa, and Illinois are pouring pollution into that river, the whole thing ought to be cleaned up as one big project.

Mr. WOLVERTON. That is the type of work that I had reference to in the Delaware River Basin that they are figuring on.

Mr. WELCH. General, a road-building program is anticipated after the war for which plans and specifications are being prepared by the commissioners in the several States, that is a fact, is it not?

General FLEMING. That is a fact. As I said, we have this fund of \$60,000,000 which they can draw on to prepare those plans. But since very few of the States have come in to get their share of this allocation, it is not going as well as I had hoped for.

Mr. WELCH. Are you in a position to tell us the proportionate employment between road construction and public building and bridge construction?

General FLEMING. Highways, roads, and streets represent about 40 percent of public construction, and public buildings about 25 percent.

Mr. WOLVERTON. Mr. Chairman, may I say right here: I don't know that I want to call upon the witness for his opinion, although I think he is well qualified to give an opinion if he cares to do so. We are all aware of the splendid work that was done by General Fleming in bringing order out of chaos with respect to the other loan and therefore he has some large fund of information. It is just my own personal thought whether you wish to make any comment, I will not press for it, when it comes to the question of Federal works, I hope we can get it on a basis where wages will be paid that will not be mere subsistence wages such as we had in W. P. A. It is my definite opinion that if we want to keep up national income and do something that will provide work, we have got to pay wages that will enable individuals to get or have the opportunity to buy so-called luxuries and not be limited to just clothing, something to eat, and a roof over their heads. That would be done by the governments themselves in the wages they

would pay, or whether it would be by the letting of contracts for the doing of this work where the standard of wages would be raised, I don't know just what would be the system, but it seems to me that is something that would have to be considered in connection with the whole program.

General FLEMING. Well, I will go along with you absolutely. I don't think a man should have to pass a "means test" in order to be hired; and I don't think he should be paid a mere subsistence wage. I think he should be paid in accordance with his skill and ability to do the particular job.

The CHAIRMAN. Mr. Fogarty.

Mr. FOGARTY. General, have you taken into consideration on the planning of these Federal public buildings the employment of local engineers and architects?

General FLEMING. Yes. We generally try to use local engineers and architects, and we will use them more and more as time goes on. The Public Buildings Administration, for the time being, was pretty highly centralized here in Washington, and a good deal of the work was done by its own architects and engineers. Our plan will be to decentralize that organization, to use the Washington organization as a consultant in construction, and employ architects and engineers in the localities to do the designing.

We are getting up general type instructions for them so that they can go ahead and do the designing in accordance with the general ideas we have in mind.

Mr. FOGARTY. On this, you say it takes about 4 percent of the actual cost for plans and specifications? Is that what you pay architects for plans and specifications?

General FLEMING. Well, the scale for the architect is not a right line—it is a curve so that the percentage which he is paid depends upon the entire over-all cost. He may get 6 percent for a small structure and only 2 percent for some great large structure.

Mr. FOGARTY. But the average is about 4 percent?

General FLEMING. Some place around there; yes.

Mr. FOGARTY. I agree with Mr. Wolverton and others of the committee that if the Federal Government did take some steps where it could reimburse the local communities for half of that cost, that would give them some incentive to go along on many of these plans and specifications.

General FLEMING. That is the yeast to make the dough rise.

Mr. FOGARTY. On this wage question, I don't think you ever had any trouble with the P. W. A. wage program?

General FLEMING. Well, we did not have any great trouble, but the P. W. A. standard was not the ideal wage scale.

There were three belts drawn across the United States, and in each one of the three there were three scales: One for skilled, one for semi-skilled, and one for common labor. That was a line right straight across the whole country. You cannot be as universal as that in such work. In P. W. A. you could work a man only 30 hours a week.

Mr. FOGARTY. In P. W. A.?

General FLEMING. On P. W. A.; yes.

Mr. FOGARTY. Well, they worked 40 hours in my section.

General FLEMING. Well, I am going back to 1933; I was with P. W. A. from 1933 to 1935.

Mr. FOGARTY. You don't mean C. W. A.?

General FLEMING. No; Public Works Administration. I was Deputy Administrator of it. The original law in 1933 permitted them to work only 30 hours a week. I think perhaps in some of the later laws that was changed. But under the 1933 act, I know they could pay a man only for 30 hours a week from the funds appropriated.

Mr. FOGARTY. I have talked with some of them on those projects, and I think they were satisfied with the program and wages paid. They were the prevailing scale of wages in that particular section.

General FLEMING. I am most familiar with the first 2 years of P. W. A., when they paid the same scale in New England as out in Oregon. There was a north belt, a middle belt, and a southern belt; and, in some cases wages paid in each belt were the same as the prevailing rates of pay. I think we should pay prevailing rates of pay, just as we do under the Bacon-Davis Act on any Federal structures.

Mr. LYNCH. I would like to ask one question. Did I understand you to say that you had appropriations for blueprints now, but that they were frozen in some way or other?

General FLEMING. We have appropriations for public buildings amounting to about \$200,000,000, but they are frozen, and due to the present lack of materials we can't even go ahead with the blueprints and specifications. We are asking now for authority to do just that.

The CHAIRMAN. General, I don't want to appear too persistent, but I want to come back to one question before we conclude this hearing. That is a question of the communities, States, and so forth, being advised of just what they could expect in the way of Federal contributions.

It seems to me that that would be an incentive in order for them to make practical plans. I am going to go back just a little bit to emphasize that with an illustration.

When the Lehman Act was set up originally to assist or rather to help the communities meet the war increases in population I recall—I don't know whether it was your agency or whose it was—that it sent out Federal representatives to these communities. I know in my own congressional district of south Mississippi, where we had some war industries, Army camps, and so forth, these Federal representatives came into the communities, not only in the communities where the industries and plants were located, but in the outlying communities as far as 50 miles away, and told them that they were down there to assist them in getting up plans to increase the hospitals, schools, streets, sewage, and other facilities. Those people were encouraged to ask for just as much as they could conceive that they could use.

I recall the mayor of one little town, not a town where they had one of these war babies, but down away from it. After he had, as he told me, given them everything he could conceive of that they could build along that line, he said, "Now, are you sure that is all that you need?" Well, the result was those communities were encouraged to ask for a lot of stuff they never got; there was never any chance of their getting it. Their idea was that here was an opportunity to get something out of the Federal Government.

Now, if we follow the plan that you have suggested which I, incidentally, have discussed with Mr. Johnston on a previous occasion,

it is good as far as it goes. But unless those communities know what they can expect in the way of Federal contributions I think you are going to have a condition somewhat similar to the unfortunate illustration that I used. I just wanted to make that observation.

General FLEMING. Well, if that took place, certainly the F. W. A. was at fault. It hasn't taken place in the last 21½ years, because I have instructed our field people that we are not a selling organization; we are not trying to sell anything to them, to promote improvements; that if they want to make improvements they can come to us.

We would like to educate them to the point where they know there are certain funds in case they have a war impact they cannot meet, but we don't go out and procure applications where assistance is not needed.

The CHAIRMAN. General, we are very grateful to you for your appearance here this morning.

I might add, we are going to set up a subcommittee to study this particular problem and to make recommendations to the full committee. We are intensely interested in this subject. We want to work out a practical program that will meet the objective.

Mr. Folsom, I wonder if you have any questions?

Mr. FOLSOM. Just one question, Mr. Chairman.

The plan that General Fleming is recommending is similar to a plan we have in New York State under which the State pays half the cost of plans and the city the balance. Have you made any estimate as to the size fund which will be needed if the Federal Government is going to advance half of the costs of planning and specifications?

General FLEMING. Something in the neighborhood of \$200,000,000.

Mr. FOLSOM. Two hundred million dollars?

General FLEMING. Two hundred millions.

Mr. FOLSOM. I have heard figures of one hundred million.

The CHAIRMAN. Anything further, Mr. Folsom?

Mr. FOLSOM. No, sir.

The CHAIRMAN. Mr. Johnston, we are glad to have you here this morning.

Mr. JOHNSTON. Thank you, sir.

The CHAIRMAN. I wish we had time to hear you.

Mr. JOHNSTON. I have no particular contribution. I think you have discussed what was in my mind.

The CHAIRMAN. Thank you very much.

The committee will go into executive session.

(Whereupon, at 12 noon, the committee adjourned, and went into executive session.)

POST-WAR ECONOMIC POLICY AND PLANNING

TUESDAY, MAY 23, 1944

HOUSE OF REPRESENTATIVES,
SPECIAL COMMITTEE ON POST-WAR
ECONOMIC POLICY AND PLANNING,
Washington, D. C.

The special committee met at 10:30 a. m., in room 1304, New House Office Building, Hon. William M. Colmer (chairman) presiding.

Present: Representatives Colmer (chairman), Cooper, Walter, Voorhis, Murdock, Lynch, O'Brien, Fish, Reece, Welch, and Wolverton.

The CHAIRMAN. The committee will please come to order. We have with us this morning Dr. Bigge of the Social Security Board.

Doctor Bigge, some complications have arisen: The House is meeting at 11 o'clock and most of us will have to be over there. So I am going to suggest, if it meets with your approval and the approval of the committee, that you turn your prepared statement over to the reporter to become a part of the record, and that we spend the few minutes left by permitting any of the members to ask you any questions they would like to ask.

Mr. BIGGE. All right, sir.

STATEMENT OF GEORGE E. BIGGE, MEMBER OF THE SOCIAL SECURITY BOARD

Mr. BIGGE. I understand the committee is interested in getting the Social Security Board's views as to the part which the social-security program, and particularly unemployment insurance, can, and probably should play, in meeting the conditions which we are likely to face after the war.

The members of the committee are doubtless aware that in its Eighth Annual Report the Board has summarized its recommendations with reference to the various changes both in the social insurance and the public assistance provisions of the Social Security Act which we believe are necessary if this system is to make its full contribution in the period of readjustment after the war.

For the information of the committee I am attaching a copy of this summary of the Board's recommendations.

(The summary referred to was marked "Exhibit No. 12" and is included in the appendix on p. 480).

I might say here that the Board believes this is an opportune time to expand and make more adequate the whole social-security program and to collect substantial contributions to provide funds with which to meet future contingencies. We believe that if this is done the social-security program as a whole will provide a systematic method

for dealing with many of the human aspects of the demobilization problem.

Even the existing old-age and survivors' insurance provisions, without any change, will enable several hundred thousand workers to retire when the war work ends. If coverage were extended so that practically all gainfully employed persons were protected under old-age and survivors' insurance, a large portion of those who would not be able to hold jobs in peacetime industry could get insurance benefits which would help them get along without other financial assistance.

Unemployment compensation, even without any change, will provide substantial income for millions of unemployed workers over longer or shorter periods of time. But experience has shown that in any period of serious unemployment, the benefits provided by existing laws are quite inadequate to meet the need.

Besides, in order to get these benefits in any week a person must be able to work. If for any reason he is unable to work, he gets no benefits. This is inevitable under an unemployment-compensation program.

But on any day in the year there are 700,000 to 800,000 persons who would otherwise be in the labor force, who have not worked for a year or more because they are unable to work.

A social-security program should provide benefits for a man who can't work, as well as for one who can't find work.

If our social-security system covered practically all the working population and provided reasonably adequate benefits in case of disability, as well as in case of old age or death or unemployment of the wage earner, the need for emergency measures would be substantially reduced, and any additional long-time measures could be better adapted to deal with the special problems which would remain.

While the Board believes, as I indicated before, that an expansion of the social-security program generally would be helpful in dealing with the post-war situation, it is clear that the chief danger is unemployment. Consequently, the unemployment-compensation program is of special significance, and I should like to discuss this in much more detail.

While this form of aid to the unemployed has certain limitations, it also has distinct advantages, especially in such a situation as we shall face when the war ends.

It is designed particularly to deal with limited periods of unemployment while workers are shifting from one job to another or while the employers are adjusting their operations so they can use the workers again.

Unemployment compensation would be of only limited help in dealing with such a widespread and extended depression as we had in the 1930's. Additional measures would be necessary to cope with such a situation.

But even here, if we have unemployment compensation which covers most of the gainfully employed, and if benefits are reasonably adequate to provide subsistence during substantial periods of unemployment, some of the cumulative effects of depression will be avoided.

So we may expect that there will be less of the long-time unemployment—which will not be provided for by unemployment compensation.

In the area for which unemployment compensation is intended; that is, short-time unemployment, it does have distinct advantages. Under such a program the worker knows what he can expect if he is out of work for a while.

He doesn't have to wait for extended investigation; he doesn't have to prove his need as in relief plans; he doesn't have to worry about not getting help.

If he worked a certain amount last year and is able and willing to work now, in general he will receive benefits. And the amount he gets is generally related to his past wages, so he knows that in advance also.

Besides, as soon as a worker loses his job and applies for benefits he is required to register at the employment office and the employment service will help find him a job if there are any available.

We have never used the employment service as fully as we might, but once the employers of the Nation become familiar with its possibilities it seems to me the employment service can be of the greatest help, not only to the worker but to the employer, and to the community as a whole.

Before the unemployment-compensation system began to operate it was mostly the casual worker and the less efficient worker generally who used the public-employment office. Consequently industrial employers looking for regular help rarely called on the employment office.

But since unemployment compensation has come into operation every worker who wants to draw benefits must register for work, and as a result the employment office will have applications from practically all the capable unemployed workers in the community. And the offices are doing an increasingly effective job in selecting qualified men for any opening an employer may have.

In the early days of the conversion period the employment offices demonstrated their ability to select persons according to almost any reasonable job specifications.

So the unemployment-compensation system, by clearing all unemployed workers through the employment office, serves not only the worker but also the employer by finding capable help for him if it is available.

And it serves the community, too, by bringing men and jobs together more promptly and so reducing the total of unemployment at any time.

I'm not suggesting that unemployment compensation would remove or greatly reduce the basic readjustments required in the post-war period. It has frequently been pointed out that to have reasonably full employment in the post-war period we shall need to produce and sell 30 to 40 percent more goods than in the best pre-war years.

To realize the problems involved we need only ask ourselves why we did not produce those goods in 1940. It was not because of lack of capital; we complained of excess capacity in most fields, and there was ample free capital to build new facilities if opportunity presented itself. It was not because of scarcity of labor; there were eight to ten million unemployed men eager for jobs.

The only reason we didn't employ them was because we did not know what to produce; business was unable to see a market which would take the output at a price equal to the cost of producing it.

That problem will still exist when the war is over. We are using our resources now to produce war goods, to be sold to the Government.

This has obscured the basic difficulty, but has not removed it by any means.

The only real solution for that problem is to make such adjustments in our basic economic structure that incomes earned in productive employment will provide a market for the goods which are produced.

Higher wage levels in certain areas will make a better market while the workers are employed, but will likewise create new problems of cost and price adjustment, especially in lines where standard prices have been traditional.

There will be difficult problems of readjustment to peacetime wages and prices even within the normal volume of production, and to absorb an additional nine or ten million people will require really super-human efforts and will not be achieved in a day, or a month, or a year.

In fact, as long as we have reasonable freedom of action for the employer and freedom of movement for the worker, I dare say we shall need all the help we can get from such a device as unemployment compensation to take care of people who are unemployed for longer or shorter periods while business adjustments are made.

As you know, under the Social Security Act, the payment of unemployment compensation benefits is a State responsibility. The Social Security Act makes no provision for such payments.

If the States should not choose to pass the necessary legislation, the people of the State would get no benefit out of the Federal law.

Before the Social Security Act was passed, many States had studied unemployment compensation, but in the main they feared that the contributions required under such a system would put their employers at a competitive disadvantage with employers in other States. So only one State, Wisconsin, had actually undertaken an unemployment compensation program.

To eliminate this danger of interstate competition the Social Security Act laid a pay-roll tax of 3 percent on all employers of eight or more persons in certain fields, throughout the Nation.

The act then provides further that if a State taxes any of these employers for the purpose of providing unemployment compensation benefits to workers, the tax which an employer pays to the State may be offset against the Federal tax up to 90 percent of the Federal tax.

So any State can tax these employers as much as 2.7 percent without putting any additional burden on them. If employers pay this tax to the State, they need not pay it to the Federal Government; if they do not pay it to the State, they will have to pay it to the Federal Government anyway.

As a result of this stimulus every State promptly passed an unemployment compensation law and financed it by taxing these employers 2.7 percent of pay rolls. This uniform rate has now been varied greatly through special experience rating provisions in many State laws. I shall touch upon this point again later.

The contributions collected are placed in an unemployment trust fund to the credit of the particular State and can be drawn out only to pay benefits to unemployed workers in that State.

The States have collected over \$7,000,000,000 under their unemployment-compensation laws, and in the last 6 years they have paid out over \$2,000,000,000 to as many as 5,000,000 workers in a single year.

This has meant a great deal, not only to the workers and their families, but also in keeping up the business of many communities during

short sharp periods of unemployment. And the States have on hand now in their trust-fund accounts over \$5,000,000,000 with which to pay benefits to workers who may become unemployed.

This is more than double the amount spent during the whole period since the program first went into effect. At first glance, therefore, it would seem that the unemployment compensation system is in excellent position to carry its share of the burden in the post-war readjustment.

But experience indicates that if we are to depend upon unemployment compensation to play a major part in meeting the problems of the post-war period it must be made a more effective device than it is at present. Much of the financial strength of some of the State trust funds at present is due, in large part, of course, to wartime employment, but, also, in part to the inadequate benefits paid to workers during extended periods of unemployment.

As early as January 1943 Business Week reported that the Committee for Economic Development was of the opinion that if, as seems probable, a major interruption of employment is unavoidable in certain fields after the war, an advance liberalization of unemployment compensation laws to provide larger benefits—over, say 26 weeks instead of 12 weeks—might hasten a self-supporting readjustment and avoid a demand for continuing to make useless armaments as a means of providing jobs.

This emphasized two of the major weaknesses of our unemployment-compensation program—relatively small benefits and limited duration. I should like to add another—limited coverage. The program should reach more people.

If a large proportion of those who are subjected to the risk of unemployment can be assured that in case they lose their jobs they will get something like half their ordinary wages, with a reasonable minimum and maximum, for, say, 26 weeks, we would have a fairly suitable foundation on which to build other policies if these became necessary.

In the matter of coverage, most of the State laws are now more adequate than the Federal act. The Federal Unemployment Tax Act covers only employers of eight or more people in 20 weeks in any year.

The old-age and survivors-insurance provisions apply to employers of one or more.

If coverage for unemployment compensation is made the same as for old-age and survivors insurance, as has already been done in a number of State laws, about 3,000,000 persons would be added under the unemployment-compensation program. This need be no great administrative burden on small employers, since they are already reporting under the old-age program.

Also, unemployment-compensation protection might well be extended to at least certain other groups now altogether excluded, such as maritime workers and Federal civilian employees.

These two groups total another 3,000,000 persons. While it will not be feasible to extend unemployment-compensation protection as broadly as the Board has recommended extending old-age and survivors insurance, some further extension is certainly desirable.

With reference to the size of the weekly benefit, the Federal act sets no standard whatever. That is left entirely to the States.

The general average benefit was \$13.84 a week during 1943. But if we go back to 1940, when benefits more nearly reflected peacetime wages, the average for the country was \$10.56, and in 16 States over half the payments were under \$10 a week.

That was for total unemployment. If a person has some earnings, his benefit is decreased.

It should be remembered that while we speak of benefits as being, roughly, equal to 50 percent of wages, the average benefit of \$13.84 for 1943 is only about one-third the average weekly wage at that time. The maximum of \$15 to \$20 in practically all States automatically limits better-paid workers to less than 50 percent of their wages.

With benefits fixed as a percentage of past wages, the maximum might well be raised to \$20 or \$25 per week. In all, there are 32 States which have maximum benefits for workmen's accident compensation which are higher than the maximum benefits for unemployment compensation in these States.

The maximum is not necessarily related to the general wage level of the State, nor to the anticipated load of unemployment, or the reserves in the State fund. In many cases the States with high wage levels have low maximum benefits, and frequently the States with the highest reserves pay the lowest benefits. High reserves are of little value if they are built up by keeping benefit payments at an inadequate level.

It seems, therefore, that in most States some increase in the maximum benefit is desirable to maintain a reasonable relation to previous earnings and to provide substantial help to unemployed workers in higher wage brackets.

In considering the adequacy of benefit payments we immediately run into a second question—whether the general level of benefits should be raised or whether additional benefits should be paid for dependents.

Initially dependents' allowances were not included under either unemployment compensation or old-age benefits. However, in 1939, Congress amended the act to take account of dependents and survivors in old-age and survivors insurance.

If a retired individual has an aged wife or a child under 18 dependent upon him, each dependent gets one-half as much as the worker himself, with a maximum which is double the benefit which could be drawn by the individual alone. In unemployment compensation the only law which recognizes dependents is that of the District of Columbia, where \$1 a week, with a maximum of \$3 additional, may be allowed for dependents.

The maximum payment in any case is still the same, \$20, either with or without dependents. The Board feels that any additional money spent for unemployment benefits would do more good and would meet existing need to a greater extent if the increased benefits were related to dependents than if distributed as an increase in the general level of benefits.

An even more serious limitation of unemployment compensation has been the limited period during which benefits can be drawn. In most States the duration is related to the amount of employment or of earnings which the worker may have had in the preceding year, or in the base year, with a specified maximum duration.

Discussion of duration is usually in terms of this maximum rather than in terms of what is actually available to the individual who be-

comes unemployed. In some States some individuals may be entitled to benefits for as little as 2 weeks. The maximum period during which benefits may be drawn is 16 weeks or less in 29 States.

In 14 States payments may be made for as long as 20 weeks if the worker had sufficient previous employment. But the average period for which workers who became unemployed in 1942 were actually eligible on the basis of their wage records varied from 10 weeks in the State with the shortest period, to 20 weeks in some other States.

In six States this average period for which workers were eligible was less than 11 weeks.

A further indication of inadequate duration is found in the fact that ordinarily a large proportion of claimants are still unemployed when their benefit rights are exhausted. In the rather good year 1941, for the country as a whole, one-half of all claimants were still unemployed when they had exhausted their benefit rights. In three States the proportion was more than 60 percent.

Obviously these claimants would be more in need of help at the end of 8, or 10, or 12 weeks of unemployment than when they first lost their jobs. Probably no change in the program would do more good than an extension of duration.

The Committee for Economic Development has mentioned 26 weeks, and this period would doubtless meet the need in the large majority of cases.

Another change which would seem to be desirable would be to pay benefits for the same length of time to all eligible workers, regardless of differences in previous employment or earnings.

At present, in some States, after a worker has filed a claim and served his waiting period of 1 or 2 weeks he may be entitled to benefits for only 2 or 3 weeks. It seems hardly worth while to go through the work involved to provide protection for so short a time. Fifteen States already pay benefits for the same length of time to all who continue eligible, without reference to past employment. This uniform duration varies from 14 weeks in some States to as much as 20 weeks in others—about the same as the maximum in other States.

To indicate the significance of this uniform duration provision it is worth noting that in States with uniform duration claimants drew benefits for an average of 12.2 weeks, whereas, in other States, during the same years, duration averaged only 8.0 weeks.

In other words, providing the same maximum for all eligible claimants increased the average period of benefit payments by 50 percent. Of course, such a program will cost somewhat more than one providing more limited benefits, but the increase in cost will be relatively small compared with the increased protection afforded.

If all who are eligible could draw benefits for as much as 26 weeks, if they are unemployed that long, unemployment compensation would be a much more effective device for dealing with unemployment.

As a general indication of the limitations on benefit payments under existing laws I might point out that one eminent economist has called attention to the fact that in 1940 when \$518,000,000 was paid out in unemployment benefits the wage loss through unemployment was about \$7,000,000,000.

Unemployment benefits, therefore, made up about 7 percent of the wages lost through unemployment. An economist employed by the Committee for Economic Development has estimated that, if there is

no change in present provisions of unemployment-compensation laws, benefits would not average as much as 15 percent of the wages which workers now in covered employment would lose during the transition period. He goes on to say that if we consider the whole working population, unemployment benefits will not make up 10 percent of the wages lost through unemployment during that period.

The Bureau of Business Research of Ohio State University, applying the Ohio law of 1941 to a sample of Ohio firms, concluded that if the law had been in effect over the period from 1928 to 1932, benefits would have replaced only 10.4 percent of the wages lost through unemployment by workers who might have met the eligibility conditions.

While such relations exist between wages lost and benefits paid, it seems to me we need not fear that unemployment compensation will induce loafing.

If a reasonable relationship is maintained between the wages which an individual worker may expect and the benefits to which he is entitled under the law, we can safely relax other conditions, such as maximum benefits and maximum duration so that unemployment compensation can play a larger part in making up for lost wages.

The payment of adequate benefits is important to employers and to the community generally as well as to workers. One of the benefits to be derived from keeping up the income of unemployed workers is that they can continue to buy at least a minimum of the ordinary necessities of life.

This will serve to support the market for such goods and enable employers to continue production, thus avoiding the cumulative effect of sudden mass unemployment which completely cuts off buying power.

The stabilizing influence of such assured income is one of its important contributions to better economic conditions generally.

In the matter of benefits, as to minimum and maximum, and also as to duration, the State laws have been slightly liberalized in the past few years. Some States have made very substantial improvements, others little or none, but in general there has been some liberalization. But many workers, otherwise eligible in all other respects, are being denied benefits under the disqualification provisions of the laws.

The application of these provisions is becoming more and more illiberal and restrictive. Here, as in the case of benefits, the States are free to introduce any provisions they choose—as long as they avoid certain disqualifications which are prohibited by the Federal act.

Under the Federal act a worker may not be disqualified for refusing to accept a job on which there is a strike, or if wages, hours, and other working conditions are less satisfactory than for other similar work in the same community, or if he would be required to join a company union or resign from a bona fide labor organization.

But all unemployment compensation laws disqualify for various other acts, such as voluntary leaving without good cause, refusal of suitable work, misconduct, going on strike, and so on. Such disqualifications are essential if payments are to be made only for involuntary unemployment.

But it is clear, too, that, if otherwise eligible workers are disqualified for extended periods, or worse still, if benefit rights are canceled entirely so that a worker who leaves a job voluntarily, even with perfectly good reasons, or refuses another job, regardless of his reasons for doing so, can never get benefits on the basis of past employment,

then workers are being deprived of protection just as effectively as if benefits were slashed, or duration reduced, or conditions of eligibility made more stringent.

It is true that State laws commonly provide that the disqualification may be avoided if the worker shows good cause for leaving or for refusing a job. But, more and more, State laws are requiring that the good cause must be "attributable to the employer" or related to the employment.

Yet there are often circumstances not related to the employer in which a worker would be justified in leaving or refusing a job.

While the Social Security Board has no authority to prescribe standards in this field, it has consistently suggested to the State agencies that "good cause" should include personal situations as well as conditions related to the employment, and that in any case disqualification should take the form of postponing benefits for a specified time, rather than canceling benefit rights entirely.

A few illustrations will show what is happening. In one case a woman worker left her job to look after a child who was seriously ill. Certainly that was justified. She was not available for work, so of course she would not draw benefits. When the child was well enough she wanted to return to work, but her job had been filled.

She went to the employment office and registered for work and filed a claim for benefits. It was some time before she got another job. Obviously she was available for work, but because she had left her previous job voluntarily without any fault of the employer, regardless of how good her reasons may have been, she was denied benefits.

And not only that; her benefit rights were canceled, so that if for any reason she was laid off at any time within the next year she could get no benefits on the basis of her previous employment. It seems to us there is no justification for such provisions in a system of social insurance.

Under an experience-rating program it may be that such benefits should not be charged to the employer's account, but this is an entirely different matter. It should not mean that the worker is denied benefits.

In another case a man and his wife were both working in nondefense jobs. His shop closed because of lack of materials, and he was offered another job in a defense industry some distance away. He had to move to the new location and his wife went with him.

She quit her job, registered for work in the new community, and filed a claim for benefits while waiting for another job. She was disqualified for a specified period because she left voluntarily, and benefit rights were canceled for this period.

In addition, she was offered her old job back, and although taking it would have meant breaking up the home, the work was held suitable and her remaining benefit rights were canceled so she had to begin all over again, as if she had never been employed before. Such a provision defeats the purpose of unemployment compensation.

It is true, the employer was not at fault, but neither was she. This is the kind of situation which certainly should be covered by any unemployment compensation program.

When a worker leaves a job voluntarily, for personal reasons, it has become common practice in some States to disqualify him for benefits for a limited period, and if he remains unemployed and later claims benefits, to offer him the same job he quit earlier and disqualify

him again and cancel his benefit rights entirely if he refuses to go back to that job. This is clearly penalizing a man twice for being unwilling to work on a given job.

These illustrations could be multiplied many times in State after State, and this practice of depriving workers of benefits by means of disqualifications is spreading rapidly.

Initially only 2 States qualified the "good cause" proviso by requiring the cause to be attributable to the employer; by 1940 there were 4; and now there are 19 State laws which have such provisions.

The cancellation of benefit rights was initially provided for in relatively few laws. Now 20 States cancel benefit in whole or in part for voluntary leaving and 21 for refusing suitable work.

It appears that this trend toward more numerous and more severe disqualifications, and the tendency to require cause for leaving to be attributable to the employer, are associated with increasing interest in what is known as experience rating.

Experience rating is a method of adjusting an employer's contribution rate according to benefits paid to unemployed workers who were employed by him during a specified period. Some 43 States now have such provisions in their laws.

The theory of experience rating is that it will encourage employers to stabilize their employment and thus prevent unemployment.

But there is a basic inconsistency between the assumptions underlying experience rating as it is working out, and the principles of social insurance. A social-insurance program is a joint cooperative undertaking under which workers and employers, generally, cooperate to protect the individual against certain risks which are inherent in the industrial process. No one, I think, can deny that unemployment is caused primarily by general industrial conditions than by any particular employer's action.

Yet experience rating rests, in the main, on the assumption that individual employers can control the risk of unemployment. This assumption finds expression to some extent, too, in the tax provisions of the Social Security Act, which put the whole contribution for unemployment on the employer, instead of sharing it between the employer and the employee as in the case of old-age and survivors insurance.

If the costs were shared, the social-insurance aspects of the program would be clearer and there would be less danger of losing sight of the workers' needs.

One of the worst features of experience rating is that in practice it reintroduces the element of interstate competition which the Federal law was intended to eliminate. If one State law has provisions under which many employers get substantially reduced rates, or perhaps pay no tax at all, regardless of how this may be achieved, the legislatures of neighboring States will be under almost irresistible pressure to introduce similar provisions in their laws so that their employers may get equally low rates.

If this competition were actually to result in more regular employment so that unemployment would be prevented certainly no harm would be done. The provision of work is better than the payment of benefits.

But it is obvious that in many cases it is easier to avoid paying benefits to unemployed workers—through more numerous and more severe

disqualifications, through cancelation of benefit rights, and so on—than it is to prevent unemployment.

Experience suggests that in part at least the unduly harsh disqualification provisions mentioned earlier grow out of a desire to secure reduced contribution rates by limiting payments which may be charged to an employer's account to those for which the employer may be considered responsible, regardless of whether or not the worker might reasonably be entitled to benefits.

It is very significant that of the States which do not have experience rating, only one has this kind of disqualifications, especially the mandatory cancelation of benefit rights and the double penalties, whereas in States which have reduced rates through experience rating there has been a rapid spread of such disqualifications.

One State agency recently reported to the governor that more than half the workers separated in the State had been given notices of separation which contained language that seemed to be intended to disqualify the workers if they later apply for benefits.

In another State it is reported that an employer recently refused to give his workers a certificate of availability unless they promised they would not claim benefits during the next 15 months—during which such benefits might be charged to the employer's account.

If one accepts the underlying philosophy that benefits should be paid only when the individual employer is at fault, some of these disqualifications of course would be justified, but even then the cancelation-of-benefit rights would ordinarily be inexcusable.

And under any unemployment compensation system worthy of the name workers should be protected against involuntary unemployment regardless of who else may be at fault.

Ordinarily it is not the fault of any individual or of any group. If experience rating is to be defensible, the method of computing rates should be such that the employer's interest in reduced contributions does not serve to defeat the major purpose of the program.

The experience-rating provisions are inconsistent, also, in that they tend to reduce contribution rates in good times when it is easier to pay, and increase than when business goes bad.

This anomaly may be minimized by relating rates to average charges over a number of years, but the tendency is there nevertheless. It comes out very clearly at the present time.

During the year 1943 there were 25 States which collected average contributions of 2 percent or less, instead of the standard 2.7 percent, and in a number of States many employers in war industries were paying less than 1.5 percent and in 5 States some employers pay nothing at all.

Many State agencies have seen the incongruity of charging such low rates on wartime employment, when it is obvious that the absence of unemployment is in no sense due to the employers' efforts to stabilize, and equally obvious that workers are building up credits which may result in huge benefit payments in the years ahead.

A number of States have adopted special provisions to maintain higher rates on wartime employment. But the same anomaly is present in every period of business activity; and just as the individual employer is not responsible for full employment now, so he will not be responsible for unemployment later.

If rates are to be varied at all; and the business community is to get maximum benefit from the program, then rates generally should go up when business is good and down when it is bad.

Another weakness of the Federal-State program, which has become apparent, is the failure to develop any procedures for distributing over the country as a whole a part of the excessive burden which would fall on certain States in any period of mass unemployment.

While this is not serious at the moment, for the long run it is the greatest weakness of our present unemployment-compensation system. We should not let the abnormal conditions of today blot out the experience of 1938 and 1939.

It was quite evident then that the burden of unemployment would ordinarily be many times as heavy in some States as in others, and that the full, normal contribution rate of 2.7 percent would not be sufficient to maintain solvency in some States even with meager benefits, whereas other States could support liberal benefits with much lower contributions.

Even though conditions were continuously improving after benefit payments began, some States found it necessary to draw heavily upon their reserves.

Even last year several States reported that 2 years, or even a single year, of serious unemployment might require more funds than they had on hand.

In part, of course, this is a problem of financing which must be faced by any such program; but it is made more difficult under our system, in which reserves are segregated in separate State funds. While some States face this possibility of shortage of funds, others have accumulated in their reserves an amount equal to 10 or 15 and even 20 times the highest amount paid out as benefits in any 1 year. Unemployment is not evenly distributed, and unemployment in any State is not caused by conditions within the control of that State, to say nothing of control by individual employers.

Benefits in Michigan in the last half of 1938 were three times the contributions collected, while in the District of Columbia they were only a fraction of contributions. This was not because employers in Michigan were less concerned about unemployment or did less to achieve regular employment than did the employers in the District; it was simply because people all over the Nation—or all over the world—bought automobiles spasmodically, or stopped buying for a while, whereas a steady stream of purchasing power poured into the District to keep workers regularly employed.

It seems to us that if we are to have a sound and effective unemployment-compensation program we must devise some means of spreading the funds more evenly over the Nation in case of need, so that workers will have reasonably comparable protection regardless of State boundaries, and so that there will be no imminent danger of insolvency of certain State funds while other State funds are overflowing—or while employers in other States pay very small contributions, or none at all.

At the present time there is a grand total of over \$5,000,000,000 in the reserve funds of the various States. These reserves will probably be considerably greater before the end of the war. Even the \$5,000,000,000 would be sufficient to pay benefits of \$20 a week for 20 weeks to 12,500,000 unemployed.

However, it must be emphasized again that this \$5,000,000,000 cannot be considered as a pool from which benefits could be paid to the workers actually unemployed if we had as many as 12,500,000 men out of work.

Such unemployment would fall largely in a limited number of States. The probable drain on the State funds would vary widely between the several States. Calculations which have been made, based on various economic assumptions, indicate that in a period of mass unemployment some State funds might become insolvent while as much as one-half or two-thirds of the total reserves were still unused.

The largest reserves are frequently in the States paying the least adequate benefits, so the reserves are of no significance in providing security against unemployment even to the workers within that State. Thus, with the existing provisions, a large part of the present total reserves in effect will be sterilized and will not be actually available to meet the unemployment problem when it occurs.

I said earlier that the failure to provide some sharing of the burden of unemployment on a Nation-wide basis, some pooling of the funds collected for unemployment compensation, is the most serious weakness of our existing Federal-State system.

As you know, the Social Security Board has recommended to the Congress that administration of unemployment insurance be made a Federal responsibility in order to gear unemployment compensation effectively into a comprehensive national system of social security. In its recent eighth annual report to the Congress the Board stated as follows:

Only Nation-wide measures to counter unemployment can be effective when the need arises for swift and concerted action to harmonize insurance activities, with national policy during the change-over of our economic system to peace. At that time, any need for quick and unforeseen changes obviously can be met far more effectively by Nation-wide policy and by a single act of Congress than through the action of 51 administrative agencies and the necessarily cumbersome process of amending as many separate laws.

Even if the special stresses of post-war years were not impending, the Federal-State basis of the unemployment compensation program would have merited reconsideration and revision at this time. The actual course of its operation during a relatively favorable period of years has given no indication, in the opinion of the Board, that it possesses the advantages which it was hoped thus to achieve; on the contrary, experience has marshaled impressive evidence of its flaws and shortcomings. Incorporation of unemployment insurance in a unified national system of social insurance would result, the Board believes, in a program far safer, stronger, and more nearly adequate from the standpoint of unemployed workers and the Nation, and would permit more economical and effective methods of administration.

That is the Board's basic recommendation.

However, we realize there is much opposition to establishing unemployment compensation as a Federal program. In the absence of such action much of the objective could be achieved by appropriate modifications of the existing system without changing its basic Federal-State character.

In general, three changes are necessary to make the program more effective—extension of coverage, more adequate benefits and longer duration, and some device for giving Federal assistance to those States which have exceptionally heavy unemployment.

These matters can be approached either through the present tax offset provisions or by putting the unemployment compensation pro-

gram on a grant-in-aid basis something like the public-assistance system is at present.

If we use the tax offset approach the first step would be to extend the provisions of the Federal Unemployment Tax Act to all employment which the Congress wished to see covered by the State laws. If this were done it is safe to say that practically all States would extend coverage as soon as practicable.

Then in order to assure adequate benefits it could be provided that employers would get their offset against the Federal tax only if State laws provided benefits substantially equal to certain minimum standards prescribed in the Federal legislation.

These standards need not be in any great detail. If it were provided that maximum benefits should not be less than \$25 per week, and duration not less than 26 weeks, and that disqualification should not extend to the cancellation of previously accumulated benefit rights, the workers' protection would be increased tremendously.

Since the payment of such benefits might cost more than the standard 2.7 percent of pay rolls in a number of States provision would need to be made for the Federal Government to help these States meet the additional costs.

If the tax offset provisions were changed so that the States would collect a somewhat smaller portion of the over-all 3-percent tax than they do at present, and the Federal Government a somewhat larger portion, the Federal Government would accumulate a substantial fund with which to assist those States whose costs run above, say, 2 percent of pay rolls.

The exact division of contributions between the Federal Government and the States would depend upon the extent to which it was deemed desirable to spread the costs of unemployment compensation.

If the Federal Government undertook to meet the full cost above a specified level in any year the States could adjust their employers' rates to meet the costs under ordinary conditions, leaving to the Federal Government the problem of dealing with extended periods of mass unemployment.

If such arrangements were made the States could be left free to operate their program within the limits set. They could tax in any year as much or as little as they liked. They could vary contribution rates in any way they saw fit.

As long as the benefits paid were at least up to the prescribed minimum the employers of the State could be certified for their tax offset.

Under the grant-in-aid approach the Federal unemployment tax should probably be levied on the same employers but it would be limited to the amount necessary to meet the Federal portion of the burden.

There would be no need for any offset provision. The Federal Government would levy and collect whatever contributions were considered necessary for its purpose, and the States would collect whatever they found necessary to support their portion of the benefits provided in the State law.

Since there would be no tax-offset provision the State would be free to secure its funds from any source. The Social Security Board would be relieved of all responsibility in connection with experience rating; the States could operate this in any way they chose.

In order to assure workers reasonable protection it would still be desirable to require minimum benefit provisions as a condition of Federal participation. The portion of the costs paid from Federal funds would again depend upon the extent to which it was desired to spread the costs over the Nation as a whole.

Just by way of illustration, if costs were shared equally up to 2 percent of pay rolls as reported under the Unemployment Tax Act, and the Federal Government met three-fourths of the cost above this level, every State could assure its workers adequate unemployment benefits without being called upon to collect unduly heavy contributions or taxes for this purpose.

The changes which I have outlined relate to permanent improvements in our unemployment-compensation program rather than to temporary expedients for dealing with emergency conditions.

It may be necessary to adopt measures in addition to the provision of cash benefits under unemployment-compensation programs in order to deal with the post-war period, and if this becomes necessary certainly it is desirable to plan such measures in advance. However, the Board believes the first step in dealing with unemployment might well be a strengthening of the unemployment-compensation program so that this system could play its proper role in the reconversion period.

If there is a fairly adequate and uniform system in effect throughout the Nation it will be much easier to fit into this such additional provisions as training and work programs and the like if they become necessary.

There has been considerable discussion recently of the desirability of having the Federal Government supplement benefits paid under the State laws during the emergency period of readjustment.

In many respects this would be entirely appropriate, since the unemployment at that time will be related to demobilization of the armed forces and of war industry.

On the other hand, if this is to be done, it would be highly desirable that States adjust their programs to take on a more or less uniform portion of the load.

Otherwise the States which are regularly doing a good job, providing fairly adequate protection, would get relatively little help from the Federal Government, and the States which have the most inadequate programs would get much Federal money. It seems to us that States might well be expected, as a condition of getting Federal supplementation, to bring their benefit provision up to some reasonable minimum standard.

Much of our thinking concerning unemployment compensation will undoubtedly be affected by the role we expect it to play in the post-war years and in the longer future.

If we think of it only as a sort of incentive taxation designed to stimulate the individual employer to do what he can to regularize his own operations, then the weaknesses of the present system will not appear serious. The basic problems of social insurance will not loom large because such a program is not fundamentally social insurance.

On the other hand, if we are interested in making the program a really effective first line of defense against unemployment—providing workers with a minimum income during substantial periods of involun-

tary unemployment and thus, in the words of the Committee for Economic Development, facilitating "a self-supporting readjustment" of private enterprise without the necessity for more direct interference on the part of government—then it seems that we should give our best thought to removing some of the weaknesses of our present program which have been mentioned.

The Board has made extensive studies in various parts of this field and will be glad to provide the committee with any additional material or any technical information which the committee believes would be helpful in giving further consideration to this matter.

The CHAIRMAN. Mr. Cooper, you are somewhat of an authority on this subject. Suppose you start the questioning.

Mr. COOPER. Mr. Chairman.

Will you just give us a brief outline. Mr. Bigge, as to what the particular points are that you stress in your statement? Would it be convenient to do that?

Mr. BIGGE. Yes; I think that could be done. I make a very brief statement about the part that social security could play generally in meeting the post-war problems if it were extended to cover the groups not now covered, and then, too, I call attention to the fact that as it stands now if a man is unemployed and able to work he gets the benefits, but if he is unable to work he cannot get any benefits, and we think the social-security program might logically provide benefits for a man who is unable to work, as well as a man who is unable to find work.

We think that would be an important addition. But most of the statement that I have prepared deals with unemployment insurance because we are thinking of the problem from the view of mass unemployment.

There we suggest that if any Federal action is necessary it seems reasonable to condition that upon the provision, by the States, under their unemployment-insurance laws, of reasonably adequate benefits, and then, if additional unemployment remains uncompensated, then the Federal Government might logically assist in taking care of that problem.

Mr. COOPER. Well, does your statement deal principally with title III of the Social Security Act?

Mr. BIGGE. Yes, sir.

Mr. COOPER. Unemployment insurance?

Mr. BIGGE. Unemployment insurance.

Mr. COOPER. And to what extent do you find the present provisions of State laws might in some way have a bearing on the question of the Federal Government dealing with unemployment insurance?

Mr. BIGGE. The chief difficulty as we see it with the present benefit payment provisions is that the benefit itself is rather inadequate in many cases, and the duration is much too short.

Usually, when we talk about duration we say in a given State benefits are provided up to 16 weeks.

But that is a maximum.

Actually, people who become eligible may draw for only 2 or 3 weeks, and on the average it is only about 11 weeks.

Mr. COOPER. Is that because of provisions in the State laws?

Mr. BIGGE. In the State laws.

Mr. COOPER. As I see it then, from your statement only one or two things could be done to meet that situation. We would have to try to secure a change in State laws.

Mr. BIGGE. Yes, sir.

Mr. COOPER. And the other would be to completely federalize unemployment insurance.

Mr. BIGGE. I have not dealt with the second except to include a paragraph or two from the Board's eighth annual report, and the remainder of the discussion is devoted to how the Federal-State system might be modified to deal with the problem without federalizing the system.

Mr. COOPER. That would require some changes in existing State laws.

Mr. BIGGE. Yes, sir.

Mr. COOPER. I see. Now, has the Social Security Board given consideration to any changes in the social security program that may be necessary with respect to title II, the so-called old-age unit—old age and survivors benefits?

Mr. BIGGE. We think one important change would be to take care of the returning servicemen or the men who are in the service so they will get credit for the time they are in the service rather than have that time lapse.

Many of the men who have gone in the service who were insured when they left have lost that insurance because they haven't been in covered employment since they went in.

Mr. COOPER. Have you given consideration to the extent that the so-called G. I. bill recently passed by the House might help along that line?

Mr. BIGGE. If I remember correctly, the G. I. bill does not deal with that particular phase of the problem. I think that is omitted, if I remember correctly. We think it might very well be put in there or somewhere else.

It is a really pressing problem because some of the boys have come back and some of them have died since they came back, from natural causes, and their families are not able to collect benefits because they lost the insurance benefits while they were away.

Mr. COOPER. With respect to title II some of the changes will have to be made to take care of servicemen for the time they have spent in the service.

Mr. BIGGE. Correct.

Mr. COOPER. To what extent do you think some changes may have to be made with respect to workers in war plants?

Mr. BIGGE. We think that is important, too, in the arsenals and so on particularly. If they are in privately owned plants they are covered, but insofar as they work for the Government—I believe something like half a million people are now working in Government plants of one kind or another—they are not getting protection. They come from a privately owned plant to the Government plant, doing the same kind of work, but they lose the protection, too.

Mr. COOPER. Then I would like to know what you think about another phase of the matter. There are no doubt a great many people, probably thousands of people, who have come from uncovered employment into covered employment.

Mr. BIGGE. Yes.

Mr. COOPER. They weren't building up any benefits while they were in uncovered employment but for such time as they may be in covered employment they will be building up some benefits.

Mr. BIGGE. That's right.

Mr. COOPER. That might mean then that, for a year or 2 years or such time as they are in covered employment, they will build up benefits; but for that previous employment which was not covered they have not built up any benefits; then, if they should go out of covered employment at the end of the war, they would have only that small segment of the time that they have spent in employment that is covered by title II of the Social Security Act.

Mr. BIGGE. That's right.

Mr. COOPER. Have you given some consideration to that matter?

Mr. BIGGE. It is included in the general problem of the shifting of labor forces from the covered to the noncovered employments. It stands out more now than ordinarily, but it has always been true, and we think the real solution is to extend coverage to these other fields.

Mr. COOPER. I know, but assuming that might not be done: The Social Security Board has been recommending for years the extension of coverage protecting the new groups that are not now covered, agricultural labor and domestic labor and casual employees.

Mr. BIGGE. Yes.

Mr. COOPER. But so far they have not been covered under the Social Security program. Now, then, in securing information, if it should develop that they are still not covered, is there any way to deal with this problem in your opinion with respect to the large number of people who have been brought under covered employment who have not previously been under it and who probably will go out of covered employment after the war is over?

Mr. BIGGE. I think not.

Mr. COOPER. You haven't any suggestions or recommendations along that line?

Mr. BIGGE. No, sir. Many of them wouldn't have acquired insurance, they wouldn't have been in long enough—certainly not fully insured and not currently insured. They wouldn't be in for six quarters. I wouldn't see any way that could be done. If the boy goes back to the farm and farm work isn't covered there isn't much more occasion for keeping him on the rolls in the old-age and survivors insurance than there is in putting another farm boy on the roll.

This boy went into employment to get good wages; he got those good wages and he made his pay-roll contributions, and that stays on the records. If he goes back into a factory it counts; if he doesn't go back it doesn't count.

We don't think there is any way of handling that particular problem.

Mr. COOPER. Well, doesn't it mean then if a man has spent his life up to the war in uncovered employment and then puts in 2 or 3 or 4 years, whatever the time may be, in covered employment, then goes out to uncovered employment and never returns to it—

Mr. BIGGE. Yes.

Mr. COOPER. He would have had that part of his pay deducted?

Mr. BIGGE. That's right.

Mr. COOPER. During the time he is in covered employment. And he never received any benefit from it.

Mr. BIGGE. That's right. But there are millions of people who do that same thing. This is just a little aggravation of a continuing problem.

Mr. COOPER. In other words, the situation would continue as it has existed in the past, except that it is accentuated some by the war.

Mr. BIGGE. That's right. By the labor turn-over, the shifting.

Mr. COOPER. That is all.

The CHAIRMAN. Doctor, I don't want to take up a great deal of time but, as Mr. Cooper has suggested, your Board has been recommending for some time that these additional fields be covered.

I am just wondering about the practicality of that. You evidently have given a lot of thought to it. Do you think it is practical to go into the field of domestic workers and farm labor and similar places?

Mr. BIGGE. Yes; we think it is. And we feel the farmer, as well as the farm laborer, should be brought in, particularly in the field of farm work. A man is part of the time a farm operator and part of the time a farm worker for his neighbor, and we think both types of work should be covered, the farmer and the farm worker.

The CHAIRMAN. Time won't permit a discussion of that. I am sure that has bothered some of us.

Mr. WELCH. Doctor, have you a list of the States that provide unemployment insurance and the number of weeks provided by each State; also the amount paid weekly as allowance?

Mr. BIGGE. Yes. That would be in terms of minimum and maximum and average, because it varies according to the amount of earnings in the preceding years; but we can furnish such a list.

Mr. WELCH. Will you provide it for the record?

Mr. BIGGE. Yes, indeed.

Mr. WELCH. That is all.

The CHAIRMAN. Mr. Voorhis.

Mr. VOORHIS. Not at the moment.

The CHAIRMAN. Mr. Murdock?

Mr. MURDOCK. We have had testimony to the effect that there is bound to be a period of hesitancy the moment the armistice is signed or the guns cease firing; but we are not quite sure how long that period of hesitancy will be. Then, of course, we expect a rise in production again to a fairly high level.

Mr. BIGGE. Yes.

Mr. MURDOCK. Now, the question is, How long will that period of hesitancy be, and what about those who are thrown out of employment? Will social security last long enough for a short period of hesitancy and furnish relief at that time?

Mr. BIGGE. We have unemployment insurance, but in many cases it won't. That is why we think the duration of benefits, the possible duration, should be extended.

The average duration for 1942, I think it was, was only 11 weeks. The maximum was anywhere from 15 to 20 weeks, but the average was only 11.

That would be higher now, because earnings have been higher, and it is usually related to past earnings, so that more would get the maximum; but even so, we think that might well be extended to 26 weeks, and then it would cover such a period as you suggest.

Mr. MURDOCK. But according to your answer to Congressman Cooper, that would depend upon changes in State law.

Mr. BIGGE. That's right.

Mr. MURDOCK. How do you feel about federalizing the entire system?

Mr. BIGGE. Well, we have given a great deal of thought to that, and as I say, I have attached here a summary of the Board's recommendations. We think that is the simplest approach; recognizing the fact that administrative problems would be the same, but at least you would get a fairly uniform base on which to build; people throughout the country would be treated the same; and more than that—the money collected for this purpose in the form of pay-roll contributions could be used wherever the unemployment happens to be.

As it is now, one economist has pointed out that from one-half to two-thirds of the funds which have been collected cannot be used because the unemployment in the States, where that particular money is will not be great enough to use it. On the other hand, other States may go bankrupt at the same time because they haven't been able to collect enough.

If it were a single national pool, those two aspects of the problem would be much simpler.

Mr. MURDOCK. Yes, sir.

Mr. BIGGE. But in my testimony I have dealt almost exclusively with changes in the States, because of the opposition that would be encountered by any proposal to federalize.

Mr. MURDOCK. I believe that Mr. Wilson, of General Motors, testified that in his judgment that period of hesitancy would be pretty short.

Mr. BIGGE. Yes.

Mr. MURDOCK. A matter of weeks rather than months.

Mr. BIGGE. Yes.

Mr. MURDOCK. I asked him that question and I think that was his reply.

Mr. BIGGE. Yes.

Mr. MURDOCK. And, as I remember it, he thought that laborers temporarily thrown out of employment, if they knew they were going to have a job waiting them when retooling and adjustments had been made, would not suffer on that account. And besides they would have their social security to fall back on.

Mr. BIGGE. Yes.

Mr. MURDOCK. I also had the thought in mind that the chairman evidently has when he speaks about the feasibility of applying the benefits of social security to farm, domestic, and casual employees.

But we must not go into that.

There is one thing I would like to be clear on and I haven't given enough study to the whole problem of social security: What is the present law regarding the small employer?

I have had many small businessmen say "I am contributing now to social security for my small labor force but there is none for myself." Has that been remedied?

Mr. BIGGE. No; we have recommended that all self-employed people be brought in on the same basis as employees, but no self-employed person can come under now.

Mr. MURDOCK. Well, that doesn't have an exact bearing on our post-war problem but I think it is a matter that ought to be corrected,

because I have seen evidence of considerable injustice there to the small employer.

Mr. BIGGE. Yes; may I add, that applies to old-age and survivor benefits, of course, and not in unemployment benefits.

We see no way that unemployment benefits can be paid to the self-employed person.

Mr. MURDOCK. In other words, it applies to title II.

Mr. BIGGE. Title II, right.

Mr. MURDOCK. I believe that is all, Mr. Chairman.

The CHAIRMAN. Mr. Welch.

Mr. WELCH. Doctor, it seems to me the questions you were presenting to the committee were largely questions that related to social security in its broader phase. What you are recommending to the committee, does it have any particular bearing upon the post-war problem?

Mr. BIGGE. In two ways—

Mr. WELCH. I do not wish to infer that I am not sympathetic to the broadening of it; but I am just trying to discover how far the suggestions which you are making come under the supervision of this particular committee with its particular problem.

Mr. BIGGE. Yes. I think in two ways it applies to that period.

I think if old age and survivors insurance were extended to a larger portion, to all the employee population, it would to some extent take out of the labor force, and remove as a problem, many of the people that will be too old and not able to hold jobs in peacetime conditions.

In the second place, any unemployment insurance applies to the post-war period because if unemployment benefits are made more adequate for a longer period, then we can take the point of view that Mr. Wilson I think it was you said expressed, that these benefits will take care of the person who is out of a job during that period; we don't need to do anything special about him.

I think as the system stands now that couldn't be assumed because in many states the benefits are so inadequate and for so short a period that there would be a great deal of unemployment that wouldn't be compensated; but if this system were more substantial, more adequate, it would remove the need for special emergency provisions to that extent.

Mr. WELCH. Does your statement cover that?

Mr. BIGGE. Yes, sir.

Mr. WELCH. I will read your statement.

Mr. BIGGE. Yes. It covers that.

The CHAIRMAN. Mr. Voorhis?

Mr. VOORHIS. I would like to ask just two questions. In the first place, Mr. Bigge, do you believe, as a matter of principle and policy, that it is better to try to amend the basic unemployment insurance benefit in such a way as to make it adequate to meet the human problem resulting after the war; or, if it should be regarded as a special part of the cost of the war, should be treated in a way comparable to the contract termination provision or similar matters, where we are expecting to write off the cost of a lot of that stuff that has been produced—thus handled in some special way by the Federal Government directly in the reconversion period?

Now, each of those two things do you think ought to be done?

Mr. BIGGE. We think the two might well be put together.

The States have something like \$5,000,000,000 for the purpose of paying unemployment compensation to the unemployed.

Mr. VOORHIS. Yes.

Mr. BIGGE. The Federal Government now is in debt to the extent of several hundred billion dollars.

Mr. VOORHIS. Right.

Mr. BIGGE. And we think it would be a little anomalous if the Federal Government were to take on substantially more debt to take care of those needy or unemployed.

Mr. VOORHIS. Yes.

Mr. BIGGE. Until the States had used to a substantial extent the funds that have been accumulated for that purpose.

So we think the Federal action, whatever it might be, could well be something like this:

That if the States will pay benefits to a maximum, say, of \$25 a week for as much as 26 weeks, then the Federal Government will pay all of the additional cost in that State during a specified period.

Do you see what I mean?

Mr. VOORHIS. Yes; I see.

Mr. BIGGE. Because we think the Federal Government would then take on a good portion of the strictly war-caused unemployment.

Mr. VOORHIS. But you would do it through the system as it is now established, basically?

Mr. BIGGE. That's right.

Mr. VOORHIS. I would just like to emphasize this, unless we are prepared to prevent any considerable period of unemployment without income on the part of workers, we are going to get a cumulative effect and be in serious trouble.

Mr. BIGGE. Yes.

Mr. VOORHIS. In other words, the most important thing, it seems to me, is to be ready right at the outset to see that no people should become disemployed as a result of the end of the war in order that industry has no long period of lack of buying power, not only for their sakes but for the sake of the Nation.

Mr. BIGGE. You are thinking of the cumulative economic effect on the whole community.

Mr. VOORHIS. Yes.

Mr. BIGGE. And if you look at it from that point of view, this observation is interesting:

One economist pointed out that in 1940 or 1941 only about 7 percent of the wages lost by unemployment were made up by unemployment-compensation payments.

Mr. VOORHIS. 1941?

Mr. BIGGE. I think that was 1941. I can check on that. An economist employed by the Committee for Economic Development has estimated that, unless the State laws are substantially changed, not more than 10½ percent of the wages that will be lost through unemployment in this post-war period will be made up by compensation payments.

Mr. VOORHIS. Does that mean, if your proposal were adopted, that the Federal minimum would be 90 percent?

Mr. BIGGE. Not at all. Because it never does compensate that much when wages are at a high level.

But if the State laws were amended, as I suggest, and the Federal Government paid benefits at the same level beyond that, it might well rise to 20 to 25 percent of the wages lost.

I don't believe it would get above that.

Mr. VOORHIS. I don't believe I understood your first observation then. Your proposal was that the State laws should be amended?

Mr. BIGGE. Yes.

Mr. VOORHIS. To pay higher benefits?

Mr. BIGGE. Yes.

Mr. VOORHIS. Then what would the Federal Government pay?

Mr. BIGGE. The Federal Government would pay those same benefits if it continued beyond 26 weeks.

Mr. VOORHIS. Oh. But the State would carry it up to that point?

Mr. BIGGE. Yes. And use their reserves that have been accumulated for that purpose.

Mr. LYNCH. When you say reserves have been accumulated for that purpose, have you got in mind that we haven't followed your original scheme of social security in establishing reserves?

Mr. BIGGE. No; I wouldn't say that we haven't followed the original scheme. I would say that in the way the matter has actually developed, some difficulties have arisen that we hadn't quite foreseen.

When the Federal Government laid the 3-percent tax in the Unemployment Tax Act and permitted employers who pay taxes under the State program to offset such State payments against the Federal tax—I think we assumed that the States would do as much as they could out of the 2.7 percent that they would collect. But actually the collection of those contributions has brought about reserves so that now some States have 10, 15, and even 20 times as much in their reserve fund as they ever paid in the highest-year benefit payments. And at the same time there are some States—two I remember in the year 1943—reported to their Governors and legislatures that 2 years, or in one case 1 year, of serious unemployment would require more funds than they had been able to accumulate.

That is, the difference between the various States is much greater than we had anticipated when the law was set up in that fashion.

And, primarily, our proposal would be to make a portion of the 3 percent available to the Federal Government for the purpose of helping to pay benefits in those States that have excessively high unemployment; particularly so after the war, but also in the longer period.

Mr. LYNCH. When you said we didn't follow the original scheme, the present-day Congress didn't follow the original scheme of the Congress that first passed this law, in raising the social-security tax.

Mr. BIGGE. I think you are referring to old-age and survivors insurance.

Mr. LYNCH. Yes.

Mr. BIGGE. That is separate. I think it is a good point.

We think it would be desirable to accumulate that fund now while earnings are high.

Mr. LYNCH. I quite agree with you.

Mr. BIGGE. And carry it over into the future.

The CHAIRMAN. Doctor, I wonder if you don't agree with the proposition that all States are not on a par when it comes to being able to provide for the aged?

Mr. BIGGE. Yes.

The CHAIRMAN. And that there ought to be some coverage on that proposition.

Mr. BIGGE. I think you are referring probably to the public-assistance titles.

The CHAIRMAN. Right.

Mr. BIGGE. To those provisions.

The CHAIRMAN. Yes.

Mr. BIGGE. We have recommended there as you probably know, and it is included in this summary that I have attached, that the Federal Government give special financial assistance to the States whose per capita income is below the national average, so that they can take care of the needy a little more adequately.

The CHAIRMAN. I would just like to observe that, when this social-security bill was first before the Ways and Means Committee, I appeared before the committee and urged that. On several occasions I offered amendments along that line on the floor of the House. Unfortunately we never got very far with it.

Now, Mr. Folsom, I think you had a few questions.

Mr. FOLSOM. I imagine you covered most of this in your statement, but what is the amount of the funds in all these State balances today?

Mr. BIGGE. It is about \$5,200,000,000.

Mr. FOLSOM. Have you any estimate of what it might be a year from now, assuming the war would last another year?

Mr. BIGGE. Well, pay rolls are about \$60,000,000,000, and the average collection is a little under 2 percent, so, something like a billion more.

Mr. FOLSOM. Would it be about six and one-half billion?

Mr. BIGGE. Approximately six and one-half billion.

Mr. FOLSOM. About a year from now?

Mr. BIGGE. That's right.

Mr. FOLSOM. Do you think the States can increase the duration so that they get paid benefits for 26 weeks from those funds?

Mr. BIGGE. I think for the initial period, probably. There may be a few States—I remember Michigan—the latest figures we have there show that if 35 percent of the covered population were unemployed for a maximum period of 26 weeks it would use up the funds they have accumulated.

I think that is approximately 35 percent.

In some other States—one State particularly—they could pay the maximum duration to every covered person in the State and still have money left.

Michigan is about the lowest, I think.

So there might be a few States that would need help in the initial period.

Mr. FOLSOM. But you think generally that the States could take care of 26 weeks from the present funds without any assistance from the Federal Government?

Mr. BIGGE. That's right.

Mr. FOLSOM. If there is any assistance from the Federal Government it would be beyond the 26 weeks, in general?

Mr. BIGGE. In general, yes. It depends on how long a period you are contemplating. If it were 3 or 4 years—

Mr. FOLSOM. We are talking about the first period.

Mr. BIGGE. Just the first 26 weeks. Again I say that there might be three or four or a half dozen States in the position of Michigan in the first period.

I doubt it.

Mr. FOLSOM. Don't you think the first move would be to have the States increase the benefits?

Mr. BIGGE. Yes.

Mr. FOLSOM. The maximum is what?

Mr. BIGGE. I think one State has 22. There are a large number with 16 weeks maximum.

Mr. FOLSOM. You think they could easily go up to 26 weeks?

Mr. BIGGE. Yes.

Mr. FOLSOM. So you think that you would rather increase the duration than increase the amount of weekly benefits if you had the choice between the two?

Mr. BIGGE. Yes; in general. Although there are some States that pay a horribly inadequate benefit.

I think there was one State that had average benefits under \$6 a week.

Mr. FOLSOM. Well, don't most of them base it on about 50 percent of their normal weekly wages?

Mr. BIGGE. Yes. That is affected in two ways, of course. The minimum is very low, and if a person can qualify by earning \$100 a year and get benefits for 10 weeks, that means very low weekly benefits.

At the top, the same way, a person earning \$50 a week would get \$15 or \$16.

The average benefit for last year, 1943, was \$13.84 I think; that is about a third of the average factory wage.

Mr. FOLSOM. But these low benefits are due to a large extent to the fact that people are employed for a very short time and therefore are not entitled to the benefit?

Mr. BIGGE. That is right.

Mr. FOLSOM. Most of the people who will be unemployed in this transition period will probably be employed for 2 years or more.

Mr. BIGGE. That's right.

Mr. FOLSOM. So they would probably get the maximum benefit of the State law.

Mr. BIGGE. Yes.

Mr. FOLSOM. Anywhere from \$15 to \$20 a week?

Mr. BIGGE. Yes.

There is another aspect of that same question of duration.

We think probably of uniform duration, anyone who qualifies may be carried for a specified period, and yet you get the duration dependent upon the length of time he was employed.

Mr. FOLSOM. That is like the New York State law.

Mr. BIGGE. Yes. And it is rather significant in that connection that States that had uniform duration paid benefits on an average of 12.2 weeks.

In States that didn't have uniform duration, the average was just 8 weeks.

So uniform duration increases the duration by 50 percent.

Mr. FOLSOM. One other question, the number working in Government plants and arsenals now are not covered at all?

If you bring those people under the State law they have to have the same benefits, and you would have the Federal Government reimburse the State as the benefit has been paid?

Mr. BIGGE. I think that is the way that works out.

Mr. FOLSOM. You simply would have the Federal Government cover all those people and have it administered through State law?

Mr. BIGGE. Yes. We thought it would be a little anomalous to have Federal employees in adjoining States come under State provisions, one having to earn \$100, and one having to earn \$300 to become eligible.

Mr. FOLSOM. You have also the duration.

Mr. BIGGE. I am thinking of this. Two neighboring States; one was the State that said its fund might be exhausted with one very bad year in the post-war period.

A bordering State has enough money in its fund to pay maximum benefits to every covered worker in that State.

Now, two Federal employees, one working in one of those States and one in the other, would be treated very differently. We thought that would be anomalous, that probably a uniform minimum should be established for such Federal Government employees.

Mr. FOLSOM. Well, on the whole, if you treat the employee in a Federal plant the same as an employee in another Federal plant in that State, the worker is going to compare with the worker in some other plant, but not in some other State.

Mr. BIGGE. No; I was thinking of the fact that the Federal Government was thinking of these people because they are Federal employees; then why should they be subject to such varying conditions?

Mr. FOLSOM. But if you administered through the State, they wouldn't know it.

Mr. BIGGE. They probably wouldn't realize it.

The big reserves have been built up in those States where the benefit is very inadequate. The big reserve is not always in the State that will need the money. It is where they haven't used the money. Duration is short, and they disqualify a lot of people, so it is cumulative because they haven't used what they have.

Mr. FOLSOM. Well, the so-called G. I. bill has just passed the House, and you think the States could do the same as the Federal Government?

Mr. BIGGE. Yes.

Mr. FOLSOM. You think they have the funds to do it?

Mr. BIGGE. Yes. And the special point I wanted to make in the present connection is that if the Federal Government attempts to do anything in this field of unemployment compensation, cash benefit for unemployment, then as a condition of the people in the State getting that special benefit they should be required to get up to a certain level. Otherwise the Federal Government pays a lot to the State that has had very inadequate benefits, and pays very little in the State that has had pretty adequate benefits.

We think that is not a very good basis on which to distribute Federal funds. We think they all ought to come up to a reasonably adequate level before Federal funds are used.

Mr. FOLSOM. But there is not benefit in the service.

Mr. BIGGE. That's right.

Mr. FOLSOM. How would you handle that; simply assume a certain amount of wages and have the Federal Government put that in the fund?

Mr. BIGGE. Yes. And we think, since pay is rather low in the services, the Federal Government should pay the employee's share as well as the employer's share.

Mr. FOLSOM. You think the serviceman making \$160 a month should have his account credited with that amount?

Mr. VOORHIS. In other words, you would provide him with unemployment insurance?

Mr. BIGGE. No; this is old-age and survivors' benefits. The unemployment provision is taken care of without any reference to earnings, but in connection with this old-age and survivors' insurance, you can freeze his status as of the time he went in, but the difficulty there is you have taken in a lot of young men who were almost insured, but not quite. If they had stayed home they would have been insured. Because they went into the service they don't get the insurance.

So we think it is desirable to cover the period a man is in the service as if they had been in covered employment.

Mr. VOORHIS. I would put in a bill to do that.

Mr. FOLSOM. Have you made an estimate of the amount of unemployment we might run into by States?

Mr. BIGGE. By States?

Mr. FOLSOM. I know the States have made estimates. Have you checked up on those?

Mr. BIGGE. What we have done is to suggest to the States methods by which they can estimate themselves, because they know their internal conditions better than we do, and we can get a national figure by putting them together.

We have made some estimates based on certain assumptions, if the war program goes in a certain way, and if we demobilize 25 percent, and so on, then you would have about this; but the trouble about releasing anything of that sort is that the minute it is released you forget the assumptions and attach too much significance to such estimates.

Mr. FOLSOM. Would you let us look over some of your estimates some time? We won't quote you.

Mr. BIGGE. Yes, there are some that will be available.

The CHAIRMAN. Doctor, we are very grateful to you. We are sorry we had to hasten this session on account of the House being in session.

The committee will go into executive session for a moment.

(Whereupon, at 11:25 a. m., the committee went into executive session.)



POST-WAR ECONOMIC POLICY AND PLANNING

WEDNESDAY, MAY 24, 1944

HOUSE OF REPRESENTATIVES,
SPECIAL COMMITTEE ON POST-WAR ECONOMIC
POLICY AND PLANNING,
Washington, D. C.

The special committee met at 10:30 a. m. in room 1304, New House Office Building. Hon. William M. Colmer (chairman) presiding.

Present: Representatives Colmer (chairman), Cooper, Voorhis, Murdock, Lynch, Fish, Reece, Welch, and Wolverton.

The CHAIRMAN. The committee will please come to order.

Mr. Folsom, whom will you have first?

Mr. FOLSOM. Mr. Raushenbush. Mr. Loysen has not appeared yet.

Mr. Raushenbush is director of unemployment compensation, State of Wisconsin.

The CHAIRMAN. We are glad to have you with us this morning.

Mr. RAUSHENBUSH. Thank you.

The CHAIRMAN. You may proceed if you will, sir, and give us the benefit of your information on this subject.

STATEMENT OF PAUL A. RAUSHENBUSH, DIRECTOR, UNEMPLOYMENT COMPENSATION, WISCONSIN

Mr. RAUSHENBUSH. I trust the committee members will feel free to ask questions at any time. Perhaps in that way I can give you more of the sort of information you are interested in.

The CHAIRMAN. For the benefit of the committee I would like to state that Mr. Raushenbush is director of unemployment compensation of the State of Wisconsin.

Mr. RAUSHENBUSH. I have been at it now for over 10 years. You might not think it, but we have been operating our law for some time.

The CHAIRMAN. Your appearance belies your statement.

At any rate we are glad to have the benefit of the wealth of your experience.

Mr. RAUSHENBUSH. The committee is probably interested primarily in just how effectively unemployment compensation under existing State laws is going to function in the transition period.

I might say, before getting into any figures relative to the present adequacy of the State funds, that at least as some of us see it, the problem is going to fall into two parts.

First, there will be the contract cut-backs, curtailments, cancellations, that will occur near the close of the European war, while the Pacific war is still in progress. We are almost all under the impression, though some of you have different military information, that the

Pacific war is going to take perhaps a year to wind up after the European war is over. Well, if it works out that way, you are going to have war-production cut-backs and lay-offs, with at least some fraction of our total war production closing, near the end of the European war.

For your present purposes it may not be material exactly when most of those cut-backs and cancelations occur—whether they occur a few weeks before the European war is finally over, in the anticipation that it is going to wind up very soon, or whether they occur when full victory has been won in Europe.

In any event, it is pretty clear that there will be substantial cancelations at that point, and substantial lay-offs. But percentage estimates as to how much those cancelations are going to amount to, as compared to total war production, apparently vary widely. Some folks say 25 percent of the total; but others go as high as 50 or 75 percent; and I don't know whether there is any authoritative information available at this time on how extensive the lay-offs at the close of the European war will be.

Without trying to settle that, because no one may be in position to settle it at this time, I do point out that, if it works out that way, with a substantial volume of war-production lay-offs near the close of the European war, then you will of course have a good deal of reconversion to peacetime production, while the war is still in progress in the Pacific.

It seems pretty clear, then, that the length of unemployment for most of the workers involved will be set by the time needed for reconversion; because it is rather unthinkable that we should have prolonged and continuing unemployment on a wholesale scale while there is a war still going on in the Pacific. The tendency will be for reconversion to proceed as rapidly as it can during that period, after the close of the European war and before the close of the Pacific war.

So at least a large portion of our readjustment to peacetime production may have occurred before the close of the war in the Pacific and final victory over Japan. That may help the problem of transition very materially.

Now, let's assume further that the major impact of unemployment and readjustment will come after the close of the war in the Pacific. Still, we can all see that that larger impact is, shall we say, a year and a half off—it looks as if it would be about that long. If that is true, then that second impact—which may be the major impact of unemployment—is not an immediate one.

The unemployment that occurs at the close of the European war will hardly be of such great volume that there is going to be any substantial difficulty in handling it. State unemployment compensation agencies must of course make some advance preparations; but they already have enough funds on hand to handle that very easily.

Mr. REECE. I hope you don't expect to handle that altogether with funds.

Mr. RAUSHENBUSH. Well, I would certainly hope that too. I would certainly agree with you, that the only answer is jobs, and steady jobs.

Unemployment compensation is certainly no substitute for a job. That is one fact that I have been preaching ever since I have been in this program.

Mr. REECE. Probably I should not have interjected at that point.

Mr. RAUSHENBUSH. That is quite all right.

Mr. REECE. That is the thought I have myself, in anticipation of the close of the European phase of the war, that we must make adequate advance preparations to convert all industry in order to be in a position to change gears as rapidly as we may.

Mr. RAUSHENBUSH. Yes.

Mr. REECE. And I keep interjecting that thought because I feel it very deeply. There isn't any reason for us to find ourselves stuck in neutral if we just prepare for it.

Mr. RAUSHENBUSH. Yes. Certainly the emphasis should be on the speediest possible reconversion, and there are a lot of things that will help that reconversion to happen as rapidly as possible; and to the extent that we get considerable reconversion under our belt, to that extent we have not only learned how to do it, but we also have a considerable extent of the total already taken care of.

Mr. MURDOCK. When do you think the greatest impact of unemployment is going to be; at the end of the European phase or the end of the Japanese phase?

Mr. RAUSHENBUSH. I frankly don't know. I think that depends on how much of the material that is produced for the European war is usable in the Pacific. The estimates I have heard run all the way from 25 percent of cancellation up to 50 percent, and even as high as 75 percent; but I have no basis for knowing what it is going to be.

Mr. MURDOCK. Well, the unemployment would largely depend, would it not, on the rapidity with which demobilization occurs?

Mr. RAUSHENBUSH. That is part of the total problem; but I was leaving that out for the moment, and thinking in terms of workers engaged in war production, as distinguished from the men in the armed services.

I assume the bulk of the readjustments will probably occur after the Pacific war. Some demobilization may occur before that; but I wouldn't know where the main bulk is going to fall, whether at the close of the European war or at the close of the Pacific war.

Well, unemployment compensation, though second choice as compared to jobs, will have an important part to play in this transition period. I would say that our present system of State laws, even without the improvements which I expect—because most of the States will be considering strengthening their laws in the 1945 sessions—

The CHAIRMAN. If you will pardon an interruption, we heard yesterday a member of the Social Security Board who presented the Federal point of view.

I think what we are interested in today is getting the State point of view on that proposal.

I wonder if you will bear that in mind.

Mr. RAUSHENBUSH. Yes. I am sorry I missed Mr. Bigge's remarks yesterday, and don't know what he said, but I expect he felt in general that the States were doing something less than he would like to see them do.

I think that the States on the whole feel that they have done a pretty good job; but not that they are perfect. They expect to improve; and they expect to strengthen their laws. The State laws have been strengthened very greatly in the last few years, and I think

that that process will clearly continue. But I think the program, even as it stands now, is a stronger program than some of our Federal critics will make out. I think they tend to look for the flaws rather than the strength of the program.

After all, in the last big depression we had in the early thirties there was no such program as this. Nothing of the kind was in existence.

We now have State unemployment compensation laws functioning, with funds amounting to over \$5,000,000,000; in fact, though I haven't got complete up-to-date figures yet, it must be very close to five and one-quarter billion dollars at this time. For every State, that means the biggest reserve fund the State has ever accumulated for any purpose. For instance, in the State of Wisconsin these reserves far exceed the 2-year budget of the State for all purposes. Probably similar comparisons would be applicable in many of the other States.

These are very large funds the States have accumulated for unemployment compensation purposes; and I might say that these are genuine "reserves," from the point of view of the States, because they are invested in Federal Government obligations, not in the obligations of the State. They are real reserves. Of course when the time comes the Federal Treasury will have to make good on these deposits which the States have made in the unemployment trust fund, because, as you realize, all the investing is done here in Washington, even though each State has a separate account in the unemployment trust fund.

Mr. MURDOCK. The witness yesterday implied that the States were better equipped right now with these reserves of which you speak. He felt that the Federal Government by supplementing it ought to come in after the States have done their share.

He felt that there was a wide variation among the States as to the coverage; with an average of 11 weeks, the variation was from 3 weeks up to 22 weeks. He thought that, if this period of hesitancy was very long, some of the States wouldn't be able to take care of their unemployment for a separate long enough period.

Mr. RAUSHENBUSH. Well, now, may I hold that question for a moment, and come back to it, if you will remind me.

Mr. MURDOCK. That was about the viewpoint expressed yesterday, was it not?

The CHAIRMAN. I think so.

Mr. RAUSHENBUSH. I will try to get into that question very shortly; but I would first like to give you some figures which have been collected within the last 10 days. They relate to the size of these various funds, and give at least some rough indications as to their strength.

I am sorry that these figures are not quite complete yet, because I only asked for them about 2 weeks ago and that has not left time for every State to make reply. If there is anybody who could distribute these to members of the committee, I have enough copies for everybody; and you might care to glance at some of these figures.

They refer to the adequacy of the State funds.

Mr. REECE. You will put a copy in the record.

Mr. RAUSHENBUSH. I think you might care to put a copy of each table in the record at the proper place, and let me correct and complete it before printing.

The CHAIRMAN. Yes.

Mr. RAUSHENBUSH. Let me first read the explanation on the first page, if you have that available at this moment :

SOLVENCY OF STATE UNEMPLOYMENT COMPENSATION FUNDS AS OF MAY 15, 1944

The table below, which is based on State figures and estimates, throws some light on the ability of the several State Unemployment Compensation funds to pay the benefits promised by the respective State Laws.

(These figures are similar to older (June 30) data released by the Bureau of Employment Security of the Social Security Board, on November 27, 1943.)

The figures shown below are the latest available State estimates of this kind. They are based on—

(a) The number of covered workers currently employed as of late December 1943;

(b) The State unemployment funds available as of May 14, 1944;

(c) The benefit provisions of State laws, as of May 15, 1944; and

(d) Each State's estimate as to its probable average benefit check (per week of total unemployment, for late 1944, assuming that many war-production workers might then be drawing benefits).

As a very rough indicator of how heavy a percentage of unemployment each State could have, and still pay its promised benefits—

(1) The State's estimated average weekly check was first multiplied by its maximum duration, to arrive at a rough (possible) total amount of benefits per worker, which might have to be paid to an individual claimant.

(2) Assuming that such a total amount were in fact paid out to each unemployed claimant, then:

To what percent of all covered workers could that much be paid, before exhausting the State's fund?

(3) To answer that question, the fund's May 14, 1944 balance was divided by the above total amount "per worker"—thereby showing to how many workers the fund (as of that date) could pay that amount.

(4) The resulting number of workers was stated as a percentage of all covered workers (currently employed as of late December 1943).

So the last column of figures, below, roughly suggests how heavy a percentage of unemployment each State could have, and still pay in full the benefits promised by its present law—from the funds it already has on hand (as of May 14, 1944).¹

¹ (1) Two main factors tend to make these percentages (in column II, below) rather conservative:

(a) Each State fund will have a considerably higher balance—than it now has—before much readjustment unemployment occurs; and

(b) Not all benefit claimants will receive the law's "maximum" duration.

(2) On the other hand, the number of covered workers "currently employed as of late December 1943" is lower than the cumulative number employed within a year, and does not include all potential claimants having some benefit rights.

(3) Please note, finally, that these figures are not "predictions," in any way, as to how much unemployment will in fact occur.

New York.....	3,806.1	723,702	18	16	20	320	2,261.7	57.9
North Carolina.....	581.0	80,100	15	10	16	160	500.6	86.2
North Dakota.....	31.0	4,062	15	12	16	192	21.1	68.2
Ohio.....	2,050.0	1,364,152	16	15	18	270	1,348.7	65.8
Oklahoma.....	275.0	38,134	16	14	16	224	170.2	61.9
Oregon.....	316.3	52,270	15	14½	16	232	225.3	71.2
Pennsylvania.....	2,025.0	517,418	18	16	16	256	2,021.1	77.0
Rhode Island.....	239.5	55,513	18	16½	20	330	168.2	76.2
South Carolina.....	276.0	30,300	15	12	16	192	157.8	57.1
South Dakota.....	38.1	5,520	15	12	16	192	28.7	75.4
Tennessee.....	480.0	58,259	15	12	16	192	303.4	63.2
Texas.....	1,063.9	123,586	15	12½	16	300	618.4	58.1
Utah.....	115.0	19,244	20	18½	20	370	52.0	45.2
Vermont.....	60.0	9,738	15	13	18	234	41.6	69.4
Virginia.....	450.0	52,302	15	11	16	176	297.1	66.0
Washington.....	569.0	1,104,452	15	14½	16	232	450.2	79.1
West Virginia.....	375.0	54,037	18	15½	18	248	217.8	58.1
Wisconsin.....	650.0	130,112	20	17½	20	350	371.7	57.2
Wyoming.....	‡ 58.5	6,230	20	17	16	272	22.9	‡ 39.2

1 As of Apr. 30, 1944.

2 Apparently based on cumulative, rather than December 1943, figures. ("Spot" figures for Wyoming: Column A, 39.4; column H, 58.1.)

3 Data not available by May 25, 1944, for Hawaii.

In table No. 1, you will note in the A column the "Estimated number of covered workers currently employed, December 1943." That is a "spot" figure, except as otherwise noted. In other words, how many people were actually on pay rolls in late December, a question which gives you an idea of how many covered workers there were in each State. It is true that there were some people who worked for short periods earlier in the year who might have some benefit rights but were not on a pay roll in December. Still, this is the most accurate current figure available.

Then column B shows "State's unemployment compensation fund balance as of May 14, 1944." That is stated in thousands of dollars. Not counting Hawaii, which hasn't had time to reply to a May 12 inquiry—although Alaska managed to—you have a total running over \$5,000,000,000.

Next, column C shows "Law's maximum weekly benefit amount"; namely, the highest amount per week that any worker could draw under the law as it currently stands.

Now, it is my expectation that a number of those figures will be adjusted upward by amendment of the State laws in the 1945 sessions. Most all of the States started out with a \$15 maximum, and in the last few years quite a number have amended their laws to provide for \$18, and some even for a \$20 maximum. I believe there is one State that provides for a \$22 maximum. It is true that the cost of living has gone up, as well as wage levels; so a \$15 maximum is no longer as adequate as it was a few years ago.

The CHAIRMAN. You mean weeks?

Mr. RAUSHENBUSH. \$15 maximum, per week.

The CHAIRMAN. I see.

Mr. RAUSHENBUSH. It is no longer quite as much in purchasing power as a few years ago. But you will notice that a good many States, starting from a general \$15 maximum-rate level, have amended their laws upward. This table shows the currently prevailing weekly maximum in each State.

Now, column D shows the estimated average weekly check. This is a State administrative agency estimate, as to what benefits might average late in 1944, assuming that a considerable number in war-production work might be laid off at that time. Of course, that is purely an assumption, since we don't know when curtailment is going to come.

You will note here, in comparing columns C and D, and this in part gets into your question of the benefits which the States are generally expecting to pay, that the average weekly check will work up pretty close in some cases toward the maximum provided by State law.

Mr. MURDOCK. Yes.

Mr. RAUSHENBUSH. Of course, the States are taking their wage levels and current earnings into account, in order to make at least some rough estimates as to what the average weekly check will amount to.

You will notice California's estimate runs as high as \$18.50. Many of them still run, on the average, below. Probably there are more of them at \$16 and \$17; and there are quite a few of them below that, depending partly on the wage levels prevailing in their respective States and the current maximum benefit that their law provides for.

Next, column E shows the law's maximum duration, in terms of the highest number of weeks that any eligible worker could draw under the law.

That does not mean that everybody will draw that maximum. In some States it does; but in most it does not, because the amount of benefit and the duration of benefits in the majority of State laws depend upon the earnings and wage record of the individual worker.

Take the worker who has only worked in covered employment for a month or two during the year involved, who has only been in the labor market and in covered employment for a month or two; in his case, the chances are that his weekly benefit and the number of weeks which he can draw will, under the majority of laws, be very limited indeed. But, should it not be?

Do you want to pay the same weekly rate and the same number of weeks to an individual who has worked for only a few weeks in the year, as you pay to the individual who has been employed throughout the bulk of the year? So there is that differentiation.

This is one of the peculiar cases where "the better we do, the worse we look" is applicable.

For instance, suppose a State law entirely disqualified from benefits this worker who has only been in the picture a short while, by saying, "We won't bother with you at all." Then you would have no figures in the statute as to these small amounts.

But, where a State decides, "We will do a little for the worker who has been in the picture only a short while, we won't disqualify him entirely," then that shows up to our disadvantage. "The better we do, the worse we look." In fact, that tends to pull down the average check, and the average duration too. If you pay low-paid and temporary workers a little something, that pulls down the general average of benefit payments.

So you have to analyze the figures to see what is really happening.

I don't know whether that answers your question. Perhaps it does, at least in part.

Mr. MURDOCK. What I had in mind, remembering what was said yesterday, the States' maximum duration of benefits varies quite a bit.

Mr. RAUSHENBUSH. Yes.

Mr. MURDOCK. And that was the testimony we had yesterday, that it varies from 3 to 22 weeks.

Is that what the table shows?

Mr. RAUSHENBUSH. Well, no; that was giving you an actual figure that might be paid to somebody who had only worked for a very short time. No State has a 3-week maximum. When you are talking maximums, that is not a maximum, as you will notice in column E. The lowest maximum you will hit anywhere in there is 14 weeks, and the highest is 24. So Mr. Bigge must have been talking about how much some individual workers, with very limited earning records, might perhaps draw.

Mr. MURDOCK. I get the point. This was brought out in answer to my question yesterday. Suppose the period of hesitation following the war is a matter of 30 or 40 weeks, how could the States take care of that? They probably couldn't for so long a period.

Mr. RAUSHENBUSH. Well, I think that raises two questions.

First, I believe many States are going to lengthen their present durations, probably in their next legislatures.

Now, put yourself in the position for a moment—many of you have been, perhaps, at one time or another—of a State legislator, respon-

sible for the unemployment compensation law of your State and responsible for its solvency as well as its liberality.

Today I think you might feel, with somewhat uncertain conditions, that you wanted to be sure that the State fund was going to be assured of solvency before you did a great deal more of liberalizing or extending unemployment-benefit protection. Perhaps some States have hesitated for that reason, though there were a good many who did liberalize their laws in 1943, even in the midst of the war.

But I think you will find that the State legislatures are going to say, "Well, have we got enough funds? Can we step up both our weekly amount and our durations?" And I think in most of the cases they will find that they have a considerable margin, within which they can safely liberalize their laws and extend durations; which in my opinion is important in a number of these cases.

But that does of course raise a long range question.

Certainly there is room for longer duration than some of the laws provide. I think it is going to happen by State action. After all, again putting yourself in the position of these State legislators, if they have got the money and the need is there to provide longer unemployment benefit protection, I think they are going to be rather willing to meet that need by State amendments, without any pressure from Washington. I think they are going to feel the pressure from their own citizens, and I think they are going to act on it.

But of course when you get beyond some point, a question does arise, "How long should we continue to pay unemployment compensation benefits, as a matter of right? For how long a period is that a sound social device?"

Now, let me say that I am in favor of unemployment compensation. I had something to do with getting the first law in this country passed—and then got the job of administering it wished off on me. I think unemployment compensation has an important role to play.

But there is a basic question, I think, of social policy, when you extend unemployment compensation beyond 20 or 26 weeks or something of that sort. You are beginning to raise the question, "Is this a sound way to handle very prolonged unemployment, or not?"

Remember, you are paying out these benefits as a matter of right, without any needs or means test at all; you are paying out for idleness, rather than for useful public work or anything of that sort.

I think there is real need for this kind of a program during the early months of unemployment. There is plenty of justification for it. At some point, however, there is the question of how long should such benefits continue? But I would say that many of the State laws have not yet reached the point where that question need be raised. There is still need for lengthening these durations; and I expect it is going to be done, by State legislative action.

Mr. MURDOCK. I look upon this as a bridge and I am anxious to know whether this bridge is going to be long enough to cross the stream.

Mr. RAUSHENBUSH. Yes.

Mr. MURDOCK. Second, what my friend from Tennessee said over there a minute ago, unemployment compensation, essential as it is,

is not the main thing. It is the job, and that is a more substantial security.

MR. RAUSHENBUSH. Yes. Of course, it is hard to say at this stage how long reconversion will take in the various States and the various types of industry. Perhaps the bulk of the resulting unemployment can be handled even by present durations in many instances. Where reconversion is not a very prolonged process, it might take 3 or 4 months; in other cases it may take longer, and the question would run to the period reconversion takes.

I might mention one more thing on maximum-benefit durations, which the committee might be interested in. Although I have listed here the statutory maximum duration, that is only the outside maximum payable to any individual in any 1 benefit year. There is a peculiar fact, under about a third of the State laws. If you just time the exact end of the European war and the corresponding lay-offs correctly within the calendar year there are quite a number of States where the maximum duration they might actually pay would be double the maximum shown in column E.

That peculiar fact arises out of an administrative device; and I think the folks down here in Washington who developed it or favored it didn't realize what it might do to the States. They are just beginning to realize it.

Let me give you an illustration. Many of these State laws have a definite fixed base period, such as a calendar year. Let us take that because it is the most common among this group of 17 States. They use a fixed period of 1 calendar year; and what an individual has earned in covered employment within that base period will determine his benefit rights during a 1-year period starting, let us say, in April or in May or even June or July. In other words, between the base period and the start of the application of those benefit rights there is a lag of 3, 4, or 5 months. That is in order to get in the necessary wage records and set up the thing properly. All right.

This means that the calendar year 1943 is the one on the basis of which benefits are now being paid. So you are now using the calendar year of 1943 as the basis for current-benefit payments, not only during 1944 but even on into the first 3 months, let us say, of 1945. Do you follow me on that? In other words, the benefits you draw from April 1944 on through March of 1945 depend on covered work and earnings in the calendar year 1943.

Suppose now that these reconversion lay-offs occur at the close of November 1944. At that point, let us say, the individual would be entitled under a given State law to draw 16 weeks of benefits. Some of them run higher, but let us take that as an illustration. He draws those 16 weeks in December, January, February, March. He just finishes the 16 weeks on the 1st of April. It could happen, couldn't it, if the lay-off happened to come at the close of November? He would get in the 16 weeks. All right.

Now, having reached April, that is the start of a new "benefit year" in which benefits are based on the earnings of 1944. So the worker picks right up and starts another 16 weeks right in a row, making a total of 32. That is perfectly possible under some 17 laws, depend-

ing upon the exact time of lay-off. So there is an interesting peculiarity.

But what I wanted to say is that many of these maximum durations will, I believe, be lengthened by State legislation.

Sorry if I have gotten into too many complications here.

Mr. VOORHIS. How many times could that happen? How many years would that go back?

Mr. RAUSHENBUSH. Well, you would go back now to the calendar year of 1943. That is the limit of how far you would go back.

Mr. VOORHIS. Now, after this fellow got up to April 1, then he starts drawing the benefits on the basis of his employment in 1944?

Mr. RAUSHENBUSH. That is right.

Mr. VOORHIS. Which employment ended on December 31.

Mr. RAUSHENBUSH. Yes. But he might have picked up all the earnings credits he could use before his lay-off.

Mr. VOORHIS. I see that. But he was building up an entitlement of 16 weeks in 1943 and 16 weeks in 1944. When does it wash out?

Mr. RAUSHENBUSH. Well, under laws of this type each year's rights wash out in the March which is the fifteenth month after the close of the calendar year.

Mr. VOORHIS. Well, would this be correct, that the entitlement remains valid until the day on which the new base period becomes effective?

Mr. RAUSHENBUSH. That's it in a nutshell. If you catch it just in between, you may have a second swing of duration.

Mr. VOORHIS. Suppose he became unemployed on January 1?

Mr. RAUSHENBUSH. Well, then, instead of drawing his 16 weeks based on 1943 he would draw only 12 weeks; and then 16 weeks more for the following period, or a total of 28.

I do want to emphasize that these durations, in my opinion, are still going to be lengthened by State action, and should be—

Mr. VOORHIS (interposing). Do most of those durations apply to the number of weeks of a calendar year?

Mr. RAUSHENBUSH. Yes. Within the benefit year, which is a 1-year period, you can draw not more than a given number of weeks.

Suppose you have a maximum of 20 weeks, as you have in my State; you can draw 10 of those, and then get a job for awhile, and you may still have 10 on which you can draw.

Mr. VOORHIS. Suppose you don't draw those 10, how would you be fixed for next year?

Mr. RAUSHENBUSH. They are not carried over. Your description of it before was exactly right, that when you get into the new benefit year then the old one washes out.

One other basic point about these maximum State durations. You have had here, perhaps yesterday, the suggestion that these maximum durations were not representative of the actual durations. Well, that is true. Some people draw less than the maximum. But here is a point worth noting, that the maximum benefits and durations will tend to apply where there has been high pay and continuous employment throughout the year.

If the number of weeks of work and the amount of earnings have been high, and work has continued for the individual throughout the

year, then he is more apt to draw at a high weekly rate for the maximum duration provided by the law. I call your attention to the fact that war-production employment has been unusually steady. It has gone on right through the year.

Consequently your typical picture now, when you have these readjustment problems arising, will be that very many workers laid off from war-production industry will draw at the top weekly rate, and that the top maximum duration provided by the given State law will apply.

So figures for 1941 and 1942 don't tell the story. You have got to recognize that war production has operated steadily; and there has even been overtime pay in there to bring earnings up. The result is you are going to come close to the maximum figures.

Turning to column F of the same table, that is simply "Product of average check and maximum duration." That figure might apply to an individual worker, if he stayed unemployed long enough to draw it.

Having reached that column F figure for each State, you then divide the fund balance by it—to arrive at column G. Mind you, this is the current fund balance as of May 14, or in a few cases as of April 30.

And you get as a result, in column G, the number of workers who could be paid that amount from that fund, if necessary.

You will note to what large numbers you could pay these benefits. If you throw the States together—not that you should—but to cite a single figure, you could have 18,000,000 covered workers drawing the amounts specified in column F for their respective States, from your present funds. And I think nobody expects 18,000,000 workers to stay unemployed long enough to draw that amount.

For instance, to take an individual State, we don't in Wisconsin expect to have 371,000 workers laid off, who are going to stay unemployed long enough to draw 20 weeks of benefits averaging \$17.50 a week.

Now, the final column, H, states the percent, of the total number of covered workers, who could be paid those average weekly benefits for the maximum duration from the State's current fund.

That's based on a direct comparison of column G, as to how many workers could draw these amounts, with column A, the total number of covered workers employed late in December 1943.

Please note that where footnote 1 appears, the percentage in column H is really too low, on a comparative basis; because some States gave a cumulative figure instead of a "spot" employment figure.

Now, without my reading all those figures, please note that pretty large figures of unemployment can be handled in each State. To cite the average figure—60 percent unemployed could be met. Are you going to have anything approximating that?

The next table, No. 2, shows the percentage in covered manufacturing employment, as compared to total covered employment under the various State laws.

TABLE No. 2.—*Employment in manufacturing, covered by unemployment compensation laws, June 1943*

[Based on estimates by the Bureau of Employment Security]

State	Total number of covered workers on pay rolls (June 1943)	Number in covered manufacturing employment (June 1943)	Manufacturing as percent of total covered employment	State	Total number of covered workers on pay rolls (June 1943)	Number in covered manufacturing employment (June 1943)	Manufacturing as percent of total covered employment
Total, 51 States.....	<i>Thousands</i> 30,868.2	<i>Thousands</i> 17,333.9	<i>Percent</i> 56.2		<i>Thousands</i>	<i>Thousands</i>	<i>Percent</i>
Alabama.....	441.6	257.7	58.4	Mississippi.....	160.3	89.4	55.8
Alaska.....	20.0	8.3	41.5	Missouri.....	758.8	411.1	54.2
Arizona.....	93.1	18.6	20.0	Montana.....	74.4	15.3	20.6
Arkansas.....	189.8	71.3	37.6	Nebraska.....	146.1	58.1	39.8
California.....	2,268.4	1,151.6	50.8	Nevada.....	38.2	8.1	21.2
Colorado.....	174.2	65.2	37.4	New Hampshire.....	111.3	76.9	69.1
Connecticut.....	673.0	502.0	74.6	New Jersey.....	1,296.4	947.0	73.0
Delaware.....	88.4	55.6	62.9	New Mexico.....	55.3	5.6	10.1
District of Columbia.....	199.7	15.3	7.7	New York.....	3,944.1	2,082.2	52.8
Florida.....	359.7	131.5	36.6	North Carolina.....	591.7	403.0	68.1
Georgia.....	498.0	296.4	59.5	North Dakota.....	28.7	5.0	17.4
Hawaii.....	86.3	30.2	35.0	Ohio.....	2,105.7	1,381.6	65.6
Idaho.....	68.4	14.5	21.2	Oklahoma.....	263.9	95.7	36.3
Illinois.....	2,254.8	1,200.1	55.9	Oregon.....	323.5	201.8	60.5
Indiana.....	962.4	631.2	69.9	Pennsylvania.....	2,827.1	1,581.5	55.9
Iowa.....	301.2	157.5	52.3	Rhode Island.....	265.4	164.2	61.9
Kansas.....	268.2	137.2	51.2	South Carolina.....	277.2	194.2	70.1
Kentucky.....	317.3	124.8	39.3	South Dakota.....	39.3	9.9	25.2
Louisiana.....	395.9	159.2	40.2	Tennessee.....	455.4	240.8	52.9
Maine.....	195.9	139.0	71.0	Texas.....	1,043.5	414.5	39.7
Maryland.....	577.0	343.3	59.5	Utah.....	121.2	34.5	28.5
Massachusetts.....	1,354.1	842.6	62.2	Vermont.....	59.3	41.8	70.5
Michigan.....	1,594.4	1,156.5	72.5	Virginia.....	440.3	207.5	47.1
Minnesota.....	471.7	209.6	44.4	Washington.....	577.2	297.0	51.5
				West Virginia.....	348.8	132.1	37.9
				Wisconsin.....	673.5	449.2	66.7
				Wyoming.....	38.1	6.7	17.6

The first column gives the estimated total number of covered workers on pay rolls late in June 1943. These are Bureau of Employment Security estimates.

Mr. VOORHIS. Now, before you go any further, tell us what you mean by manufacturing, and what you don't mean by manufacturing.

Mr. RAUSHENBUSH. Well, manufacturing industry is a rather loose classification. It is not limited to durable goods, it includes all kinds of manufacture. It does not include construction nor retail trade.

Mr. VOORHIS. You don't include mining?

Mr. RAUSHENBUSH. No. It does not include mining.

Mr. MURDOCK. How about the processing of food?

Mr. RAUSHENBUSH. Yes, it includes that.

Mr. VOORHIS. Shipbuilding?

Mr. RAUSHENBUSH. Yes.

Mr. VOORHIS. But not construction?

Mr. RAUSHENBUSH. But not construction.

This table adopts the standard classifications used by a number of Federal agencies; namely, the Social Security Board industry codes and classifications. As a matter of fact, these are Federally prepared estimates. The figures are for last June, but substantially indicate the split between total covered workers and workers employed in manufacturing.

I think we all realize that the biggest lay-off problems are going to occur in the manufacturing end of it. You are not going to have as heavy unemployment in retail trade as in manufacturing, for instance.

True, you are going to have heavier unemployment lay-off problems in some of the durable-goods manufacturing than in some of the consumer-goods lines. But this table does not attempt that kind of a detailed break-down. Perhaps, I am giving you far more detail than you are interested in, already.

You will note that manufacturing shows a rather more limited figure than the total coverage. If you recognize that manufacturing is going to be most affected by lay-offs, then you can see that the relative adequacy of some of these State funds is pretty high. Many of the States therefore have quite a little room for improving and strengthening their laws, by action of their State legislatures, when they realize that they have quite a little money and that their citizens are going to face unemployment and that they have the funds with which they could meet it by legislative action.

The final table (No. 3) simply shows what percentage of each State's covered 1943 pay roll is already available in terms of its current unemployment fund.

TABLE NO. 3.—*Ratio of State unemployment compensation funds, as of May 14, 1944, to estimated 1943 taxable wages*

[Based on data received from State Unemployment Compensation agencies through May 24, 1944]

State	Funds available as of May 14, 1944	Estimated taxable wages, year 1943	Ratio of funds available to estimated 1943 taxable wages		
			Under 8	8 to 8.99	9 or more
	Thousands	Thousands	Percent	Percent	Percent
49 States.....	\$5,254,739	\$59,215,866		8.87	
Alabama.....	1 51,596	651,623	7.92		
Alaska.....	6,950	69,593			9.99
Arizona.....	14,440	175,000		8.25	
Arkansas.....	22,103	253,244		8.73	
California.....	531,706	5,100,000			10.43
Colorado.....	27,610	290,000			9.52
Connecticut.....	138,328	1,516,574			9.12
Delaware.....	13,099	163,081		8.03	
District of Columbia.....	40,326	266,208			15.15
Florida.....	39,592	575,000	6.89		
Georgia.....	60,353	676,575		8.92	
Hawaii ²					
Idaho.....	10,883	115,000			9.46
Illinois.....	1 404,423	4,277,863			9.45
Indiana.....	142,865	1,848,084	7.73		
Iowa.....	45,725	480,463			9.52
Kansas.....	39,865	535,700	7.44		
Kentucky.....	70,256	524,053			13.40
Louisiana.....	55,306	655,000		8.44	
Maine.....	27,200	372,060	7.31		
Maryland.....	97,000	1,126,132		8.61	
Massachusetts.....	183,338	2,500,000	7.33		
Michigan.....	233,185	3,948,307	5.91		
Minnesota.....	62,900	810,100	7.76		
Mississippi.....	17,624	206,000		8.56	
Missouri.....	124,529	1,262,018			9.87
Montana.....	13,358	129,500			10.32
Nebraska.....	20,302	253,800		8.00	
Nevada.....	7,722	103,250	7.48		
New Hampshire.....	17,608	170,154			10.35
New Jersey.....	1 328,076	2,800,000			11.72
New Mexico.....	7,470	82,900			9.01
New York.....	723,762	8,300,000		8.72	
North Carolina.....	80,100	700,000			11.44
North Dakota.....	4,062	40,459			10.04
Ohio.....	1 361,152	4,280,000		8.51	
Oklahoma.....	38,134	595,647	7.54		
Oregon.....	52,279	723,051	7.23		
Pennsylvania.....	517,418	5,300,000			9.76
Rhode Island.....	55,513	500,919			11.08
South Carolina ²					

See footnotes at end of table.

TABLE NO. 3.—Ratio of State unemployment compensation funds, as of May 14, 1944, to estimated 1943 taxable wages—Continued

State	Funds available as of May 14, 1944	Estimated taxable wages, year 1943	Ratio of funds available to estimated 1943 taxable wages		
			Under 8	8 to 8.99	9 or more
	<i>Thousands</i>	<i>Thousands</i>	<i>Percent</i>	<i>Percent</i>	<i>Percent</i>
South Dakota.....	\$5,520	\$52,500	-----	-----	10.51
Tennessee.....	58,259	749,346	7.77	-----	-----
Texas.....	123,696	1,800,000	6.87	-----	-----
Utah.....	19,244	237,000	-----	8.12	-----
Vermont.....	9,738	98,764	-----	-----	9.86
Virginia.....	52,302	750,000	6.97	-----	-----
Washington.....	¹ 104,452	1,229,800	-----	8.49	-----
West Virginia.....	54,037	658,675	-----	8.20	-----
Wisconsin.....	130,112	1,287,423	-----	-----	10.11
Wyoming.....	6,230	65,000	-----	-----	9.58

¹ As of Apr. 30, 1944.

² Data not available by May 24, 1944.

Here again, you have shown the funds available as of the middle of May 1944, and the estimated taxable pay roll for 1943. Taking that annual pay roll and comparing it with the current funds, the table shows what percent of pay roll the given State has as its unemployment reserve, as of this time.

Of course, there is quite a little variation between the States; but that comparison does not tell you whether one State is going to have a lot of unemployment and another State is not. For instance, the State of North Dakota might have very little unemployment resulting from war-production cancelations, whereas some other State might have very heavy unemployment.

WARTIME CONTRIBUTION RATES

All the States have had an opportunity, during the last year or two, to adjust their contribution rates and income to the fact that they have had an expansion of war industry.

In fact, even if they have enacted no special provisions, as some 10 States have, even without special provisions the expanded pay rolls connected with war production have been part of the base on which all States have been collecting contributions, and they have had several years of such collections. To the extent the war is still continuing, they still have money coming in, based on that expansion, to help meet the lay-offs that will come when the war ends in Europe and the Pacific.

So that may give you some picture of the very sizable accumulation of money for this purpose in each and every State.

I might say that the respective States have during the past year worked on the question of the adequacy of their funds; and I don't know of any State that has said that its fund will be inadequate.

Some of us were a little concerned about Michigan, and you will note that Michigan is not the strongest fund in the country. But the Michigan agency seems to feel, and the Michigan Legislature seems to feel, that they will have plenty of money to meet their obligations. They had a legislative session only a few months ago, and some of us raised the question, Shouldn't you do something about this? Their

answer seems to have been no; that they had a very substantial pile of money, with more still coming in.

Michigan has in its current fund nearly one-quarter of a billion dollars, namely, \$233,000,000. And they seem to feel that they are in very good shape, or at least in good enough shape so that they didn't feel that it was necessary to amend their law to collect additional contributions at higher rates.

Some of the other States thought it was the part of prudence to do something extra; and there are 10 States which have levied special contribution rate, my State among them. We realized that we have a heavy load coming up, and we wanted to be sure we would be able to meet it, and have a little margin left to improve and strengthen our benefit provisions if the need requires it.

Perhaps I should stop at this point, unless there are some questions on the solvency and strength of these funds. I say again, these are the biggest reserves that any of these States have ever built up. They amount to over five and one-fourth billion dollars now, and are growing at the rate of about a billion dollars a year.

By the time the first unemployment impact comes, there are certainly going to be very adequate funds to handle any unemployment benefits payable between the end of the European war and the close of the Pacific war. It is true, if the reconversion lasts a long time the durations may not be quite long enough in some cases; but at least the States, as I see it, are in a position to strengthen their own laws; and there is the possibility, after all, that the length of reconversion may be the primary test.

With all this damned-up consumer buying power, and not enough civilian goods, it may be you are not even going to have a post-war depression to worry about at the close of the Pacific war. In fact, some people are worrying about the dangers of inflation at this stage; that you are not going to have enough civilian goods to sell people, so that prices may skyrocket unless you maintain controls.

Of course, we all know from past experience that there is a danger in the long pull. Some time after war is over, especially a big one, you may get a bad depression; but it may be long delayed, it may be a matter of 10 years later, for all we know.

Mr. VOORHIS. Mr. Chairman, I wonder if we couldn't ask some questions. I want to be sure we have some time.

The CHAIRMAN. Well, Mr. Voorhis, at this point we will let you ask the first question.

Mr. VOORHIS. The first thing that I wanted to say was that I think you have done a splendid job in getting us figures so much up to date.

Mr. RAUSHENBUSH. We worked hard hard to do that.

Mr. VOORHIS. I think credit is due the people who are administering these laws in all the States so that you were able to do that.

Now, do I correctly interpret the general impact of your statement to mean that you believe that the State funds are in such shape that any over-all provision for important post-war unemployment on the part of the Federal Government is unnecessary?

Mr. RAUSHENBUSH. Well, that is a question as to how long you expect it to last; but I do say, especially as to the unemployment that is going to occur between the close of the European war and the close of the Pacific war, I cannot see at this time that it's going to be so prolonged that the State laws—as they stand, and as they will un-

doubtedly be amended by State action—could not meet that part of the problem very satisfactorily.

Mr. VOORHIS. Well, let me ask you this—assume that the griefs that are involved in Government contracts are all going to be dealt with by the Federal Government on a uniform basis.

Now, is there going to be some feeling on the part of the men who have done the work in those plants that it is not quite equitable in some of those States where they may have gone, to be in receipt of a considerably lower amount of unemployment compensation than some fellow may be in another State?

In other words, is there anything to the idea that there ought to be a uniformity about this matter, since the situation that will result will be the result of national war?

Mr. RAUSHENBUSH. Well, I think that “uniformity” question runs rather deeply into the whole structure of our Government and our economy, doesn't it?

Mr. VOORHIS. No, not if you understand it, because the question I am asking is whether the reconversion period after the war is to be regarded as a period of strictly unemployment such as the unemployment system was supposed to be set up to take care of, or whether it is something different again that should be regarded as comparable to provisions for veterans of the war, or something of that kind?

Mr. RAUSHENBUSH. Well, it seems to me there is a distinction between the man who has been overseas a couple of years and has been away from his job, on the one hand, and the worker in a war production plant.

After all, many of these are the same workers who worked in that same plant before the war and will work in that same plant again; and the provisions of their respective State unemployment compensation laws covered them before, and now cover them along with other workers.

I would say that you should not try to introduce an element of uniformity in there, unless you are interested in long-range uniformity throughout the country.

Mr. VOORHIS. That answers my question.

Mr. RAUSHENBUSH. Yes.

Mr. VOORHIS. In California we have a lot of folks who didn't live very long in California before. We think our fund is going to be in pretty good shape.

Mr. RAUSHENBUSH. Your legislature had a committee which considered whether they should levy special war-risk contribution rates, or not. Employment and pay rolls had expanded very rapidly, but they canvassed the situation, and decided that they did not need to take special action, as their fund was in a very strong state.

The workers who work in California will draw on the California fund, where the contributions have been paid on that work, both by the employer and the employee in your State.

Mr. VOORHIS. I know.

I have two more questions.

What about the people who are not covered by unemployment compensation; what do you think ought to be done about them?

Mr. RAUSHENBUSH. Yes; there are several different classes.

First, I would say, and I would call the attention of this committee to it—though you are probably well aware of it—one group that entirely lacks benefit credits at the present time is the Government arsenal and navy-yard workers. You realize that the reason they are not covered is because we couldn't take jurisdiction over them in the States.

For most practical purposes these Federal employees are just like workers in a privately owned and operated war factory. They are working in the same city, doing the same type of work, let us say; and yet in case of those arsenals and navy yards there is no unemployment compensation coverage. That is Federal jurisdiction.

It would be appropriate and desirable to afford coverage to them; and that coverage, I hasten to say, should be exactly the same as if they had been covered under the law of the State where they work, even though there has been no contribution paid on their wages in the past.

It would take legislation, but Congress need not establish a special compensation system for these workers in Government arsenals and navy yards.

Maybe some of your clerical war-duration employees should be covered, too. At any rate you have your whole field of Federal workers.

Mr. VOORHIS That is all I have.

Mr. RAUSHENBUSH. May I just finish the specification as to what that program might be like?

They should be treated as if they had been covered under the law of the State where they worked. That means all the State provisions—as to weekly benefits, disqualifications, duration, and everything else—are to apply. The system should be administered through the same agency that administers the State law now. The employer, the navy yard, would make any necessary reports, to help establish the rights of these workers. And the Federal Government should pay the cost, on a 100 percent reimbursement basis.

There, I think, is a desirable piece of Federal legislation, to provide coverage for workers who would normally be covered, under the State laws. Provide them benefit protection on the same terms with the other workers in that State, with full Federal reimbursement of actual payments. But all the conditions of the State law should apply, and administration should be the same. It would be no problem administratively to give them parity of treatment with what they would have if they had been working in a private plant.

I could go on as to maritime workers. There should be State coverage there. You see, it was only recently that a Supreme Court decision allowed maritime workers to be covered by State law. But that is another story, which I believe another committee of this House has been giving consideration to.

In still a different class are those people employed by very small employers. There you ought to be dealing on a long-range basis, too. If you are willing to change the Federal Unemployment Tax Act to cover employers of one, instead of only employers of eight, we would then get the State laws changed accordingly. But I think that ought to be a permanent long-range program. You cannot throw funds in, on a temporary stopgap basis, and do a good job.

The CHAIRMAN. I believe Mr. Welch has a question.

Mr. RAUSHENBUSH. Yes.

Mr. WELCH. Mr. Raushenbush, from your long experience, can you give the committee an idea as to how post-war jobs in gainful work can be provided for the men and women now in the armed services of the Government, as well as the vast army of men and women now engaged in war-production industries?

Mr. RAUSHENBUSH. That is one of the biggest orders I think I ever heard in a short space of time. Of course, my feeling is that you have got to have cooperation between all levels of government and private industry. You have got to encourage initiative; and put the emphasis on full employment and steady employment, and on low-cost production, which you can only get with steady operation. But that is so big a question that I hesitate to tackle it at all, right now.

Mr. WELCH. There is another aspect that you have been discussing and you have given us a very intelligent explanation—one that is appreciated by all of us, I am sure—the preparations being made by the States to meet unemployment; but as you know, there is a bottom to the well.

Mr. RAUSHENBUSH. Yes.

Mr. WELCH. We cannot keep on appropriating billions for unemployment; we must finally afford an opportunity for those men and women now in the armed forces and in wartime industries to work in gainful occupations.

Mr. RAUSHENBUSH. I thoroughly agree.

The CHAIRMAN. Mr. Folsom, I wonder if you don't have something.

Mr. FOLSOM. Yesterday Mr. Bigge, of the Social Security Board, thought funds should be available to pay benefits for 26 weeks.

Do you agree with that?

Mr. RAUSHENBUSH. Well, I wouldn't be sure that that was true in every State; and I would like to see the figures on which he based that estimate.

Let me say that we have been working with, and working on, the Social Security Board for a period of better than a year, trying to get very specific estimates from them as to the State-by-State solvency picture, to persuade them to make their own estimates, and to make them available to the States. We thought that would be helpful to the States. We've had rather limited success, so far; but we think they are now planning to get out State-by-State estimates, perhaps within in a few weeks, to give each State a check on its judgment as to what it can afford to do or should afford to do.

Mr. FOLSOM. You think the States could probably increase the duration, but you would hardly expect them to go beyond 20 weeks?

Mr. RAUSHENBUSH. Well, I think some of them might, probably; but I would like to see some of them get up to 20 weeks first.

Mr. FOLSOM. They have a long way to go.

Mr. RAUSHENBUSH. Some of them need to get up to 20 weeks. But they have all come up quite a considerable distance.

Mr. FOLSOM. Dr. Bigge in his prepared statement mentioned that, while this fund of 5 or 5½ billion dollars which might be 6½ billion a year from now, might be adequate to take care of the situation as a whole, in a number of States where reserves are going to be needed they haven't got the reserves. Therefore he felt the answer was com-

plete federalization, but in the absence of complete federalization he thought there ought to be some standards set up.

Will you comment on that?

Mr. RAUSHENBUSH. Well, that is federalization under another name.

Just visualize the kind of "standards" the Social Security Board has talked about from time to time, and how they would work out. They would make it a requirement that a State shall have such and such a benefit range; certain disqualifying conditions; such and such eligibility provisions; such and such contribution rates. Let the Federal Government specify all these inter-related provisions, and you would have a national federalized system in actual fact, even though you didn't call it that.

So this idea of "Federal standards" is just another form of federalization. I think anybody who has really analyzed it would reach that conclusion.

At the point where you have federally imposed specifications for a State law to meet, at that point State discretion as to legislation and administration would wash out of the picture at the State level. I would say if you were doing that, you may as well have the real thing, namely complete federalization. If you adopted Federal "standards" and "reinsurance," you would wipe out the advantages the State systems now have, based on the determination of the people of each State, on their knowledge of their own conditions, their ideas of what is an adequate weekly benefit amount, what are the proper disqualifying conditions, their ideas of what contribution rates you should have, and all the rest of the various decisions that now go into the State systems.

The CHAIRMAN. You don't advocate that?

Mr. RAUSHENBUSH. Federal system; no. If I thought it was in the long range interest of the people of this country, I think then I would.

The CHAIRMAN. It would involve a lot of other questions, whether the long run benefit to the people in that field would outweigh the benefits to the people in other fields.

Mr. REECE. I was going to ask Mr. Folsom: Was your question whether this fund would take care of benefits for returning veterans?

Mr. FOLSOM. No. This relates to people who are now working in civilian industry.

Mr. REECE. It has nothing to do with the veterans.

Mr. FOLSOM. No. The G. I. bill takes care of that.

Mr. REECE. And would this take care of those who would be demobilized from the war factories?

Mr. FOLSOM. Yes.

Mr. REECE. And you stated 26 weeks.

Mr. FOLSOM. Dr. Bigge in his statement yesterday said he thought the funds were adequate to pay 26 weeks.

Mr. REECE. At how much?

Mr. FOLSOM. It depends on the State laws.

Mr. REECE. It is based on the State laws.

Mr. FOLSOM. Yes.

Just one other question: In Dr. Bigge's statement he brings out the point that there are so many disqualifications in the State laws that they won't take care of the situation as well as they could, due to the experience rating provisions.

I would like to have your point of view.

Mr. RAUSHENBUSH. Well, I think it would be very hard to demonstrate that all of those disqualifications are due to experience rating.

Mr. FOLSOM. He didn't say all of them.

Mr. RAUSHENBUSH. I know in Wisconsin we have had our legislature knock out disqualifications which we did not think were justified, with employer support.

That you wouldn't hear from the Social Security Board, I am afraid.

But there has been a lot of sentiment during this wartime period that you shouldn't be paying benefits at all, for sitting around instead of taking war jobs; and you have had some of the laws amended to tighten the qualifications. You have also had somewhat tighter administration, I think quite properly so; and that is in large part a reflection of the manpower shortage. When people are needed to turn out war goods you don't want to many of them drawing benefits at this stage, under present conditions.

But let me make one other statement on this whole disqualification matter which we have heard a lot about. In every speech the representatives of the Social Security Board make nowadays they stress the disqualification issue. I agree with some of their remarks; but, so far as I know, the Social Security Board is basing their stuff primarily on individual cases. When it comes to saying how important those particular cases are, they haven't given you that kind of figure.

So far as I know, the only figures they have available relate to complete disallowances; and the latest tabulation is in the Social Security Year Book, page 178, table 139, for the year 1942. For 1942, with the figures for all State laws combined, taking all new claims disposed of on first determination as 100 percent—less than 16 percent were disallowed for all reasons. Of those, 14.5 percent were disallowed because of no wage record or insufficient wage credits; leaving only 1.4 percent disallowed for other reasons.

Now, that is not to write off completely the importance of the disqualification provision, but I know generally it is overplayed. They talk about Iowa. I have talked with Iowa men who say that it doesn't make very much practical difference in very many cases. And that is the kind of thing you have got to realize.

The CHAIRMAN. We are very grateful to you, Mr. Raushenbush, for your contribution here this morning on this subject. We appreciate your having made the trip down here; we appreciate the information you have given us.

Mr. FOLSOM. Mr. Chairman, Mr. Loysen is here and I think he has a prepared statement. If he could present his statement I don't think it would take him very long.

The CHAIRMAN. Well, we would be very glad to hear him but we must go—

Mr. Loysen, if we had known you were here we could possibly have made arrangements to divide the time but it is necessary that we get over to the floor now and if you have a statement I think it would be well for you to leave it with the reporter.

Mr. LOYSEN. I have a prepared statement and will be glad to leave it with you.

STATEMENT OF MILTON O. LOYSEN, NEW YORK STATE DEPARTMENT OF LABOR, DIVISION OF PLACEMENT AND UNEMPLOYMENT INSURANCE

I am opposed to the plan of supplementation of State unemployment compensation systems through subsidy by the Federal Government. I do not see any demonstrated need for it at this time or in the foreseeable future. Most of the workers in the country are assured of substantial benefits during enforced unemployment under the present State-Federal system. The allowance provided in the G. I. bill of rights (S. 1767) should go a long way in bridging any gaps for returning soldiers who are unemployed.

New York State has been looking ahead in its financial planning for the unemployment trust fund. Since the beginning its employers have paid a flat rate, the normal 2.7 percent of pay rolls, in order to build up substantial reserves for a recession period. We had decided from the beginning that our plan of financing should be on the reserve principle rather than pay-as-you-go. In spite of the strong arguments for reduction of rates our administration has each year taken the position that we could not afford lesser revenues until the maximum potential liabilities of the fund were covered. Meanwhile our legislature has annually improved the system on the side of adequacy of benefits. I do not say it is perfect yet, but I am confident that as the situation warrants it the State will make provision for the needs of its workers—and if it so happens that the trust fund falls short of meeting this obligation other sources of revenues within the State will be sought before it becomes necessary to ask for a deficiency subsidy.

This is not the time for making guaranties of doles to workers nor to set up the machinery for economic collapse. To put such contracts on the books now—and to make it last for 2 years, or any other substantial period—would be an invitation to masses of people on the fringe of the labor market and to all the lazybones in the country to relax and draw their “rocking-chair” money. The cost of such a plan long before the chaos actually arrived would be staggering and in my opinion would hasten the very thing we are planning against. It is my further opinion that because of the substantial amounts suggested, up to 80 percent of normal earnings, this legislation would set up a resistance prior to complete reconversion in the recruitment of replacement war workers and would tend to increase turnover.

It is now common for several members of each family unit to be working. If interim placement pay was given during the reconversion period there are many families where it would pay for some of the members to withdraw from the jobs. The total family income would be made up from work and idleness combined. There is a difference between the entitlement of each individual in a family unit to unemployment benefits as a right and the payment of such rates as the Kilgore bill provides.

Using New York State as an example of a typical industrial State I should like to analyze the character of the labor market and illustrate what is involved in terms of potential unemployment.

In peacetime New York is a State of varied industries with trade, business, and services playing a prominent role. During the war

manufacturing industries have come to provide the major part of employment. Our service, trade, and transportation activities are now heavily dependent upon war manufacturing.

Since 1940 we have had a one-third increase in the annual number of covered workers in our system, from 4,500,000 to 6,000,000. Since November 1943 the upward trend of employment has leveled off and we expect little or no further expansion of employment.

If the war continues on all fronts for several years our fund, now approaching \$800,000,000, will be in a strong position to meet its liabilities since our exposure to payment through additions to employment will not increase.

In estimating what our resources should be we have not adopted this optimistic view, however, but have believed it advisable to provide for a serious, though not catastrophic, situation. If the war with Germany should end around December 1944 and the Pacific war a year later, we can meet a load of about 2,000,000 unemployed drawing benefits without insolvency. We estimate that we may have about 950,000 more claimants than in 1940, our heaviest year of benefit payments. These will be displaced because they entered our various covered employments in response to war demands or replaced workers who entered the armed services. The immediate effect of prime contract terminations will be the fanning out of business set-backs to hundreds of subcontractors and throughout our service industries and retail trade and transportation, all of which have been heavily dependent upon war-production activity.

We estimate that the average duration of payments may be 18 weeks if post-war reconversion takes from 6 to 9 months. The average benefits rate will, of course, be high—at least \$16; it is now \$15.83.

On these cautious assumptions as to our liabilities, we could pay about \$575,000,000 in the first post-war year. This is more than five times the \$97,500,000 paid out in 1940, a good year for employment opportunities and one in which we had a much less liberal benefit formula. If the present formula had been in effect in 1940, however, payments then would have totaled \$157,000,000. In 1946 we estimate we may still be obligated for \$400,000,000 in payments and in 1947 for \$200,000,000. This will leave us with something over \$50,000,000 to enter the year 1948. By then our current liabilities should be greatly reduced, provided the readjustment period has not turned into a deep-seated depression.

We feel there are economic indicators as well as a strong feeling of business and Government responsibility that make this upturn in business a reasonable assumption, and we have so made our financial plans. We do not believe that insurance plans can or should be made on the basis of a long-term depression outlook. Cash benefits are not the right remedy for such a situation.

S. 1893 is based on a defeatist philosophy. It is planning for unemployment, not for the maintenance of the American worker's standard of living and the assurance of employment in a free labor market.

To me, the most important part of this whole proposition is just what we can expect as to the amount and duration of unemployment and just how we should cope with unemployment problems of different magnitudes.

At best, unemployment benefits, whether Federal or State, are but a temporary expedient if we are going to have prolonged unemployment. There is a lot of economic and moral danger in carrying a heavy load of unemployed on cash benefits for a long time such as 2 years. Sir William Beveridge remarked to us in New York that it was reasonable for him to plan an unemployment on the assumption of limited need for unemployment benefits in the post-war period because he was sure the workers of England would not put up with a government that gave them nothing but unemployment benefits in a serious situation. I hope we will face the same issue here.

There are many means at the disposal of the Federal Government for stimulating private employment in the post-war period. Planning for unemployment is not enough. As I see it, we will either have a somewhat brief period of readjustment, in which case it has yet to be proved that the State reserves will be inadequate, or we will face a much more serious situation, in which case the responsibility of business and Government is to see to it that our workers get employment, not benefits.

There are five points in connection with the immediate proposals before us that throw considerable doubt on the validity of the whole approach in the Kilgore bill.

First, State unemployment insurance reserves represent a source of protection and buying power that we did not have at the beginning of the thirties.

Concern is beginning to be expressed in Washington that war-caused unemployment "would have to be borne by the State unemployment reserve funds." That is precisely what those reserves are for. We went into the depression of the thirties with no funds whatever earmarked for unemployment by either States or the Federal Government. We now have \$5,000,000,000 in State unemployment reserves, and they will undoubtedly exceed \$6,000,000,000 by the end of this year, without further significant increases in employment coverage.

It is true that both the national income and the labor force are much larger now than in 1929 or the early thirties. It is also true that our standards of unemployment aid have been raised—by State unemployment insurance. But prompt expenditure of a substantial part of these huge reserves is bound to be felt, not only through the psychological and financial protection afforded to the individual worker but through the effect on buying power in each community. The impact of expenditure of even half this amount in the year following the war is dramatized by the fact that not until 1935—5 years after the depression started—did Federal, State, and local expenditures for public aid of all kinds reach a figure of \$3,000,000,000 annually, and not until 1937 did they exceed \$3,000,000,000 annually. Thanks to unemployment insurance, there is a fence against repetition of that chaotic period with its moral and physical deterioration of millions of destitute people. Before concluding that Federal commitment must be made immediately to increase the Federal debt or taxes for this kind of unemployment aid, we must take account of these enormous State reserves.

Second, the States will be in a better position than the Federal Government at the end of the war to assume added responsibility for unemployment.

First, the State governments have steadily developed a more liquid position in recent years. Their outstanding debt has been declining since 1939. Their tax revenues have been sustained, and in many cases increased, despite temporary retrenchment in their normal tax programs in order to leave the way free for Federal war taxes. From many points of view, State financing is preferable to an increase in the Federal debt or Federal taxes in the post-war period. Second, the present provisions in the Social Security Act and the Unemployment Insurance Tax Act have encouraged pay-as-you-go financing and thus limited reserves in the unemployment insurance trust fund. The policy of pay as you go was left as a choice to the States, but it is still not too late to induce higher contribution rates for employers during the period of high production. These higher taxes would in most cases be assumed by the Federal Government in any event as part of the cost of war production. A number of States have already enacted provisions to obtain increased revenues based upon percentage of expansion in pay rolls.

Rate variation based on sound actuarial and rating principles can be employed as part of a sound long-range financial program. The important thing is to measure the amount of revenue needed and to establish rates which will insure the desired yield. Under such a plan the cost of depression unemployment can be paid for at a time when business can well afford the slight additional outlay.

The fact that some States have under experience rating plans permitted large reductions in rates during the recent period of peak production may have rendered some of the State funds less able to expand benefits in time of need than others. This was a matter of local choice, but in no case were those responsible unmindful of the fact that future potential liabilities were piling up.

No State is at present in danger. The reserves are sufficient to carry present obligations well into the reconversion period, and probably to a point well beyond the end of the war.

There is a general feeling that the present reserves taken State by State are adequate to meet anything but a collapse in the whole economic front. There is considerable feeling also that should such a collapse occur unemployment benefits for any amount or duration would be totally inadequate.

Third, insofar as State reserves have been brought to the danger point by merit rating, the Social Security Act is responsible. It permits changes in contribution rates only on narrowly specified grounds—grounds which represent fundamentally unsound financing of the unemployment risk. A major constructive step to be taken immediately is the amendment of this section of the Social Security Act.

One fault in financing is inherent in the Federal Unemployment Tax Act. Section 1602 (a) allows employers to offset the Federal tax of 3 percent with State unemployment taxes only on the basis of their experience over the preceding 3 years. The result is that with 3 years' experience an employer can obtain a tax reduction. This is fundamentally unsound financing against an economic risk such as this. The experience of individual employers during the last 3 years is no criterion for the future.

Some of the States have become alert to this danger. They have imposed additional war-risk taxes on employers with expanding pay

rolls. This was intelligent planning for those States which were fortunate enough to adopt the conventional experience rating plans permitted by the Social Security Act.

Since this committee is concerned with the solvency of the Nation's unemployment reserves, section 1602 of the Social Security Act is of direct pertinence. Amendments can be made which will permit us to strengthen our methods of financing. When the Social Security Act was written, we had no experience and little statistical knowledge of unemployment. No attention had been given to a sound basis for rate variation. From my experience in the insurance field, as well as observation of the causes and incidence of unemployment in New York State, it seems to me that to reduce or increase an individual employer's tax rate on the basis of his individual experience in the 3 immediately preceding years is anything but prudent fiscal management.

The Social Security Board states that it believes in differentials in benefits based on wage differentials, but that "present differences among the States in coverage, benefit provisions, and assets available for benefits bear little consistent relation to underlying economic differences." This is a sweeping statement. On the contrary, the States have made many adjustments in the original draft bills provided to them by the Social Security Board in order to make their laws conform to the economic and social patterns of their States. The one point at which the States have been unable to make these adjustments is in the tax provisions since in that area they are held to the rigid requirements of the Social Security Act. If the same flexibility were permitted on the financial side as on the coverage and benefits side, the last modicum of truth would be eliminated from such charges.

Fourth, a second point for immediate action at this time is the closing of certain gaps in coverage. Here, too, the Federal Government can and should act to enable or induce the States to take the necessary action.

It is now possible for the States to extend coverage to merchant seamen. We are proceeding to make this coverage extension complete through reciprocal agreements among the States, which will permit interstate shipping employers to elect one State for coverage of all their employees. Marine workers are not covered in the unemployment provisions of the Social Security Act. If the act were amended to impose the Federal unemployment tax on all employers in this industry, it would facilitate the adoption of these reciprocal agreements by States, some of which might otherwise delay signing them.

There is a further gap in coverage created by constitutional prohibitions on taxation of the Federal Government by the States. Almost half a million war workers in Government-owned and operated plants are thereby deprived of State unemployment insurance protection. Workers in navy yards, arsenals, depots, and torpedo stations, are, if anything, more exposed to the risk of sudden termination of their employment than workers in privately operated war industries.

It may also be observed that the total number of workers in Federal war agencies now exceeds 2,000,000 workers throughout the country. There is much to be said for giving all of them access to State unemployment facilities.

Provision for payment of benefits to Federal employees could be made if Federal funds were assigned to the State unemployment reserve funds either in advance or on a reimbursement basis.

Coverage of small firms is now administratively feasible. There has been reluctance on the part of some of the States in the last few years to levy a pay-roll tax on small businesses. This reluctance grew out of the business uncertainties these firms were facing in the period of preparation for war and even during the war. The unemployment experience of small firms is extremely variegated. In New York in the years 1941-42 approximately 40 percent of the small employers with pay rolls less than \$12,500 a year had no compensable unemployment. Forty percent had sufficient unemployment to cost the fund from a fraction of 1 percent up to 3 percent. The balance of approximately 20 percent of these employers experienced unemployment costing the fund in individual cases from 3 percent to 50 percent of pay roll. With the cancelation of prime contracts many of the small employers now acting as subcontractors and those operating service establishments dependent upon war industries will undoubtedly have severe lay-offs. Since the war small businesses have been greatly aided by State and Federal legislative action, and much of the uncertainty has disappeared. The need for unemployment coverage is demonstrated. It is believed many of the States will cover smaller firms by voluntary action, but Congress could effectuate this promptly by amending the Unemployment Insurance Tax Act.

The matter of covering State and local governmental employees could well be left for local governments to determine whenever it appears that there will be a need for such coverage. State and local governmental agencies are at present time largely at minimum levels of staffing. To a large extent replacements of employees leaving for military service have not been made. The positions held by these servicemen will be held open for them. There is no demonstrated need now for coverage, and it appears that there will be none arising from cancelation of war contracts or the end of the war.

Protection of agricultural workers will not be solved by the type of proposal suggested in S. 1893. The seasonal workers engaged in harvesting will largely not be employed for the 180 days specified in section 410. The self-employed agricultural worker presents a problem in administration of the work test which is well nigh impossible to solve. The problem of marginal farmers earning insufficient income for proper support is one which could probably be solved better through programs carried out by the agricultural authorities, since the problem is essentially one of land economics and not unemployment relief.

There is a critical shortage of domestic workers at the present time and there has been for the last 8 years at least an undersupply of domestics in the large cities. This is an occupation in which shortage rather than surplus is characteristic and I see no reason to suppose that the reconversion period will produce a surplus. Neither will anything but a major depression curtail the demand for domestic service.

With the rapid progress of the G. I. bill of rights through Congress, one other gap in coverage—protection of ex-servicemen against unemployment—is being closed. In most States provisions have been in effect for several years which protected covered workers who went

into the armed forces. In New York we recently extended this protection to all veterans. Now with the G. I. bill of rights, benefit protection to ex-servicemen would seem to be assured.

Fifth, the most important inadequacy in the State systems is on the side of duration of payments. It must be remembered that weekly benefit rates reflect wage levels in many thousands of communities throughout the country. The provisions in the Kilgore bill, S. 1893, with regard to weekly rates of cash payment cannot be taken seriously by anyone who believes that employment rather than unemployment will be the solution of our post-war problem of economic stability.

I am in no position to pass judgment on the adequacy of weekly benefit rates in the many thousands of communities throughout the country in which they will be applied after the war. We all agree, however, that war workers are scheduled to receive both the maximum rate and the maximum duration owing to their relatively high earnings. The average benefit check in January 1944 was already \$15.18, a 17 percent increase over the \$12.60 paid in the year 1942. No State pays a lower maximum than \$15 weekly, and most of those which pay \$15 are the less industrialized States. Only two States pay benefits for as short a period as 14 weeks, and only one pays for 15 weeks. All the others pay benefits for 16 weeks or more, many of the larger States for 20 weeks, and California, one of the greatest war-industry States, pays \$20 weekly for 23 weeks to every individual who earned \$2,000 or more.

In actual fact, there will be more uniformity, and at rather high levels, in the standards of benefit payment for war workers than there is in the wage rates now paid to them in different parts of the country.

If I may quote from the Social Security Board:

Progress under the Social Security Act has been more substantial than its proponents would have dared to predict 8 years ago. The provisions of law and the process of administration have been tested through an arc of widely differing economic conditions in years of depression, recovery, and war. The objectives of the program have been found in accord with the traditions and desires of the American people.—Source: Social Security Bulletin, January 1944.

Even on the basis that unemployment-benefit systems should be restricted to short-period unemployment, however, there is room for extension of the duration of payments, up to about 26 weeks. When the time comes I think the variable duration based on past earnings still found in many State laws should give way to a benefit duration that represents the need of the times, but I am opposed to anything but a limited use of the unemployment-benefit system; that is, I think that after 26 weeks some other device should be used to assist the individual and the community than the payment of cash benefits to a man in idleness.

If some States are slow in increasing the duration of benefits, even after the need to do so has been clearly demonstrated, Federal funds might then be employed in stimulating private employment or by creation of work programs. It seems to me that Federal unemployment assistance for chaotic unemployment, with or without means test or work test, should be ruled out entirely. It has been a failure wherever it was tried and its revival would demoralize the population.

The CHAIRMAN. Thank you. We will adjourn until 10:30 in the morning in this room.

(Whereupon, at 12 m. (noon), the committee adjourned to Thursday, May 25, 1944, at 10:30 a. m.)



POST-WAR ECONOMIC POLICY AND PLANNING

THURSDAY, MAY 25, 1944

HOUSE OF REPRESENTATIVES,
SPECIAL COMMITTEE ON POST-WAR
ECONOMIC POLICY AND PLANNING,
Washington, D. C.

The special committee met at 10:45 a. m. in room 1304, New House Office Building, Hon. William M. Colmer (chairman) presiding.

Present: Representatives Colmer (chairman), Cooper, Zimmerman, Fogarty, Worley, Lynch, Fish, Reece, Wolverton, and Welch.

The CHAIRMAN. The committee will please come to order.

We are glad to have Mr. Thomas S. Holden, president of F. W. Dodge Corporation, present this morning.

Mr. Holden, if you will, you may make such statement as you care to make, after which I am sure some members would be glad to ask some questions.

STATEMENT OF THOMAS S. HOLDEN, PRESIDENT, F. W. DODGE CORPORATION

Mr. HOLDEN. I might explain that my company is engaged in publishing and gathering news on construction activities. It has been in this business since 1892. We have 35 offices engaged in news-gathering activities.

I, myself, have been active on the post-war committees of the New York Building Congress, and of the Commerce and Industry Association of New York. I am chairman of the post-war committee which we organized in our own company nearly 2 years ago. When I saw the announcement of the formation of your committee, I sent to each member of your committee a copy of our study of post-war construction markets entitled "Construction Potentials"; I hope this report has been helpful to your members.

It was a fairly long statement, and I have condensed it into a statement which I can present here in somewhat general terms; and I hope that I will be able to answer any specific questions you gentlemen want to ask me.

I am convinced that large-scale revival of construction activity would start tomorrow if public policy permitted immediate relaxation of the present ban on projects deemed unessential to the war effort, and if construction materials and equipment could be supplied fast enough to meet the demand.

Most urgent and immediate demand, and the one most likely to get the first green light, is for deferred maintenance, repairs, and modernization of existing structures. Such work does not have to

wait upon the lifting of rent ceilings, removal of uncertainties as to future cost trends, or such other factors as must necessarily be carefully weighed in the case of contemplated investment in totally new projects. Expenditures for deferred maintenance, repairs, and modernization represent protection of existing investment. Most maintenance and repair projects involve relatively simple bills of materials, as compared with the fairly extensive variety required for most new structures; they do not require elaborate blueprints. Certain types of essential industries, public utilities, and so forth, have been able to obtain these materials, whereas the general civilian public has not.

It is likely that the total volume of such work would grow quickly into a vast Nation-wide activity. Estimates of the needs run from three to five billions of dollars during the first 12 months after wartime restrictions have been lifted. Department of Commerce estimates on normal peacetime volume of this class of work show average annual expenditures during the 1920-39 period of something over 2½ billions, with a range from \$3,562,000,000 in 1929 to \$1,773,000,000 in 1933, the lowest depression year. Volume estimates have been running over \$3,000,000,000 during the wartime years.

It is interesting to note that these estimated annual maintenance totals of the Commerce Department exceed in every single year of the 20-year peacetime period the estimated total of expenditures for new public construction, excluding work-relief projects in the years when we had them. Averaging in work-relief construction along with regular public construction over the 20-year period gives the figure \$2,240,000,000, compared with the maintenance expenditure average of a little over \$2,500,000,000. In other words this great volume of maintenance work that practically always goes on is normally bigger than our public-construction program. The record also indicates that maintenance expenditures tend to increase in prosperous years.

More important, however, for continued growth in construction volume is the evidence of demand for new construction. It seems very likely that shortages of many types of structures are much greater than they were at the end of World War I. It has been estimated that 2,734,000 new nonfarm dwelling units were produced in the 1930-39 decade, compared with an increase of 4,450,000 nonfarm families. Thus the ratio of new housing accommodations provided to new families was only 10 to 16. This indicates a considerable housing shortage at the time of the 1940 census. The war-housing program has provided new accommodations—partly temporary in character—for a portion of the families in lower-income brackets. No houses costing, with land, over \$6,000 have been built at all since the latter part of 1941, thus creating an immediate deferred demand for houses in this higher-price classification. In 1941, the residential building revival which had been in progress since 1935 was expanding into a residential building boom under the influence of defense-program prosperity, and had to be curtailed in October of that year by adoption of priorities and restrictions.

Deferred demands exist for other classes of construction curtailed in the war period. The vast war program of industrial building provided expanded facilities for such manufacturing industries as chemicals, synthetic rubber, iron and steel and other metal-working machinery, automobiles, aircraft, and other mechanical industries. It

did not provide any appreciable expansion for such industries as food processing, paper and pulp, printing and publishing, stone, glass, and clay products, textiles, lumber and woodworking, leather and leather products, and other nonwar industries.

These nonwar industries, many of which have operated to capacity during the war, will provide the greater part of post-war industrial building demand, which should be quite large according to peacetime standards. We estimate it would be probably one-third larger on the average during the first 10 years after the war than during the 1930-39 period, which was mainly a depression period.

Since all residential and industrial building projects are definitely related to the communities where they are situated, increased building activity in these classifications must necessarily be accompanied by increased volume of commercial building and of public and private community facility construction.

Various surveys of construction needs and various estimates of construction volume have been made. My own company's field staff has accumulated since September 1942 a list of 38,806 specific projects contemplated for post-war execution, the aggregate estimated cost of which amounts to \$9,130,521,000. Of these over 40 percent, by number and value, have advanced to the designing state. These projects include none located in the Rocky Mountain and Pacific Coast States, an area our field staff does not cover. In other words, an estimate for the whole country would add about 20 percent to the figure I have given you.

In spite of the vast size of this indicated program, it is not, in detail, a representative picture of the post-war construction market. Two-thirds of the projects, by number, are private projects, but they represent only a sixth of the total value. There are several explanations for this. Public planning agencies were encouraged at a very early stage to make post-war works programs and project plans. More than that, they were encouraged to make their programs on as large a scale as they could in expectation of possible Federal subsidies. Private corporation and individuals, on the other hand, have been much slower in making actual plans and in making known to outsiders any plans they might have in contemplation.

However, the volume of private project plans has been steadily increasing since the first of this year. The professional and trade magazines and trade associations have been strongly promoting the idea of early preparation of actual blueprints; certain manufacturers have been advertising the blue-print-now idea in general magazines. Savings institutions are promoting among their depositors the idea of earmarking savings for down payments on homes and the idea of early consultation with architects and builders. My own company, through its various publications and services, is taking an active part in a number of these promotional programs.

Partly on the basis of our accumulated data on post-war projects and partly on the basis of analysis of over-all economic factors, my company's committee on post-war construction markets has prepared estimates of post-war construction volume. We estimate that total construction volume in the first 10 years following the war will, after making due allowance for a changed price level, average double the average annual volume of the 1930-39 decade. This would be about 5 percent greater than the average annual volume of the 1920-29 dec-

ade, a post-war period which had the largest construction volume of any peacetime decade in the country's history.

Within this estimated total, our guess is that residential building volume will average three times the 1930-39 annual average; that non-residential building volume will average 70 percent greater; and that heavy engineering construction will average 50 percent greater.

We estimate that private building and engineering work will run two and a half to three times the average of the pre-war decade. This would require a proportionately greater increase over the 1930-39 period in private work than in public work. To support this view, I can cite in evidence the records of the two peacetime decades between the two wars.

Between 1920 and 1929, the post-war prosperity decade, private-construction expenditures were 3.7 times public-construction expenditures; in the depression decade, 1930-39, private construction expenditures were a little over 1.1 times public-construction expenditures, including work-relief projects. We lean strongly to the view that the post-war pattern will be more like that of the previous post-war prosperity period than that of the great depression era.

One direct impact of prosperity upon construction demand should be mentioned. It is a recorded fact that American consumers in the aggregate spend, almost uniformly, year in and year out, 13 percent of their total income for housing accommodations; the figure for these housing expenditures includes rent for tenant-occupied properties and the carrying charges which constitute the equivalent of rent for owner-occupied properties. If this customary 13 percent allocation to housing expenditures holds in the post-war period, and if national income averages 75 to 100 percent higher than in the pre-war depression decade, it naturally follows that the Nation's total house-rent fund will increase 75 to 100 percent. That portion of the increased rent-fund which is not absorbed by higher prices—and some of it will be—will be spent for improved accommodations both in modernized buildings and in new houses. There is already great pressure on rent ceilings and an active revival in the real-estate market.

All available evidence indicates that the problem of early construction revival is not one of lack of demand. Nor is it one of lack of purchasing power. It has been estimated that liquid savings in the hands of individuals amounted to \$58,000,000,000 at the beginning of this year. They have been increasing steadily since that time.

Congress has provided demobilization pay for men and women in the armed services, to an estimated total amount of \$3,000,000,000. Social Security reserve funds will amount to \$11,500,000,000 by the end of June. In addition, business and industrial corporations, financial institutions and State and local governments have been saving money and building up post-war reserves.

I naturally do not intend to imply all those large amounts of money are going to be spent on construction, but to illustrate the existence of widespread purchasing power in the country to cover purchases of all kinds.

The construction industry itself, most versatile and flexible of the country's major industries, is ready to go ahead. It will be able to swing into the post-war revival program as quickly as it did in the war construction program of 1942. In that year it handled what was by far the largest volume of construction work in the country's his-

tory, including hundreds of projects vast in size and novel in character. Many projects were completed ahead of schedule, and incidentally most of them at very small profit.

Today many architects, engineers, general and special contractors, and building craftsmen are operating on a very restricted scale and some are idle. The designing and assembling factors of the industry can go ahead at a moment's notice. There is no reconversion problem in these sectors of the industry; in fact, they never have conversion problems, since part of their customary stock-in-trade is the capacity to tackle entirely new jobs at a moment's notice, to swing directly from school, hospital, or factory projects into naval bases, airports, cantonments or large-scale housing, and perhaps back again, in accordance with the shifts of the country's construction needs.

The major problem of early construction revival is purely and simply that of orderly and speedy relaxation of restrictions on civilian construction, speedy release of raw materials for building-product manufacture, release of manpower for employment in the logging camps, the sawmills, and the factories which produce construction materials and equipment, and allocation of transportation facilities adequate to move needed materials to construction sites.

It has been stated by Russell G. Creviston, chairman of the post-war committee of the Producers' Council—that is an organization of building-product manufacturers—on the basis of a survey among building-product manufacturers, that sufficient supplies of most building materials and equipment for resumption of civilian construction should be available 3 months after the end of the war with Germany. His survey showed that only 15 percent of the building-product manufacturers have discontinued their normal lines of production entirely in favor of war goods. Twenty-six percent have continued to make pre-war products exclusively to meet the demands of war construction and of essential maintenance. The remainder have continued to produce pre-war products while adding some war products to their lines. I may say, also, that demand for construction materials to be shipped overseas have been very large. In the manufacturing sector of the industry, there is a reconversion problem, but it is a relatively small one.

Full realization of construction demand will also depend upon policies and programs to be adopted with reference to relaxation of price, wage, and rent controls, and with reference to disposal of surplus Government property. Procedures followed by Government in disposing of war plants, war housing, airplane landing fields, stock piles of new and second-hand materials and land will all affect the construction market.

Decisions to invest in rental housing projects, income-producing commercial buildings, and the like, will depend upon the post-war relationships of rents, land and construction costs, the trends of which will become clear only after artificial restrictions are lifted. Post-war taxes will also affect investment-building demand. A tremendous over-all problem, avoidance of post-war price inflation, is fraught with possibilities of serious import to construction revival.

The transition problems above outlined, which are in their essence over-all management problems, loom so large in the immediate post-

war picture, that we think it likely that the first 12 post-war months will have a total construction volume approximately half our estimated figure for the post-war 10-year average. It takes time to get a revival moving and up to a high rate of activity.

It would be most advantageous to know how long the anticipated construction revival can be sustained. In a prosperous economy construction activity is not a mere matter of repairs and replacements, or of catching up with postponed demands; it is a matter of providing new facilities for a wide variety of new economic, special and cultural needs. It is intimately tied in with the expansion of the national economy.

Our experience after World War I is an indication of what can happen in a post-war period. It took 6 years, from the beginning of 1919 to the end of 1924, for war-deferred construction demands to be satisfied. That 6-year period, however, was not one of continuous recovery. On the contrary, it was interrupted by a 2-year period of drastic price deflation and depression, following a post-war price inflation. So, the net recovery period was 4 years; it might take longer this time. Since every one knows very well today the dangers of post-war price inflation, it is strongly hoped that by judicious handling of our controls and wise scheduling of the relaxation of restrictions, repetition of the 1920-21 type of price-deflation depression can be avoided this time.

After 1924, when deferred demands had been taken care of, construction activity did not decline: it increased very considerably and produced during each of the ensuing 5 years larger volumes than in any other peacetime years of the country's history. While that boom was marred by serious speculative excesses, it was based upon a very sound economic expansion, the most conspicuous feature of which was the rapid development of the automotive industry and the many industries allied to it. The preceding post-war recovery had set the stage for economic expansion and had encouraged investment of risk capital in many varieties of new enterprises.

The post-war economy we look forward to will have all the ingredients of a great and sustained prosperity, and will realize that prosperity of the forces of economic expansion can be released and permitted to function without being unduly restricted by repressive Government action. The capital and the consumer purchasing power are today in the hands of the people, not in the hands of the Federal Government. As I see it, the most important actions Congress can take to stimulate construction activity at high levels likely to be sustained over a period of years are actions in the field of liberating the economy, and stimulating investment confidence so that there can be a practically uninterrupted flow of investment funds into the facilities, private and public, required for an expanding economy.

Post-war tax policies will have primary significance. Taxes affect construction demand in a number of ways. Federal and State taxes on incomes, gifts, and inheritances affect investment confidence and the volume of investment in new enterprises, including such real-estate ventures as commercial buildings, housing projects and industrial developments. Real-estate taxes, which are the main support of local governments, profoundly affect private investment in every class of property and also the capacity of local government to supply public

works and community facilities essential to supplement any new private development that is going on.

Consequently, the country's post-war tax problem involves the following:

One. Reduction of heavy Federal war taxes as speedily as possible.

Two. Provision in Federal tax programs for removal of deterrents to private initiative and private investment of risk capital.

Three. Provision of adequate tax sources for State and local governments, so that they can render their necessary services and construct their necessary facilities on their own initiative and responsibility.

I consider this third point of vital importance, particularly with respect to the post-war financial needs of local governments. It is no exaggeration to say that preservation of local fiscal autonomy and local initiative in those public affairs properly within the jurisdiction of local governments is just as important as preservation of private enterprise in industry and business, if the American way of life is to be maintained.

This problem will not be properly solved by putting local governments on a Federal dole, a method fraught with many political as well as fiscal dangers. The methods arrived at for solving the fiscal problems of local governments will affect in large degree the kind of economy and the kind of society we shall have; they will also affect the kinds of community improvement programs that will be worked out and the types of public construction projects needed in the future.

There is another field closely related to taxation that is tremendously important to construction; very particularly to future public-works programs of States and local governments. That field is post-war Federal fiscal policy.

In determining what post-war fiscal policy is going to be, Congress will almost certainly be obliged to make a study of the existing lending, mortgage insuring, and other fiscal agencies of the Federal Government, reviewing their purposes, functions, administration, and relation to the long-term credit needs of our post-war economy. Such a study might reveal the need for setting up some kind of capital-credit or banking facilities for State and local governments, either with private or with public funds.

Rudimentary banking functions were performed by P. W. A. and R. F. C. in connection with the P. W. A. programs of the 1930's; bonds accepted by the Public Works Administrator to cover loans to municipalities for public-works projects were sold to R. F. C., which, in turn, sold them at favorable times to private investors. The R. F. C. performed other banking functions for State and local governments. The two urban redevelopment bills introduced in the Senate last year—the Thomas bill, S. 953, and the Wagner bill, S. 1163—both proposed the authorization of Federal loans to municipalities for purposes of rehabilitating blighted areas. Since these proposals did not provide a sound basis for making such loans, they do not seem likely to receive favorable action. However, they may have pointed out a need, even though they did not indicate a sound procedure for meeting it.

The long-term credit study, by whatever commission or committee it may be made, should not only cover the credit needs of government at all levels, but also the needs of small business and of private

investment generally. It should also review the Securities and Exchange Act, to determine whether its operations have been unduly restrictive of private investment.

I believe that if Congress will do a first-class job on the long-range problems of taxation and fiscal policy, it will go a long way toward making the United States again the land of opportunity that it has always been, with the exception of a few periods when our economic growth has been temporarily interrupted. I believe that after sound policies have been formulated in these two important fields, it will be a fairly simple matter to judge future proposals for Federal construction programs, Federal-aid highway programs, public housing, and the like, strictly on their merits without bringing in extraneous considerations of unemployment relief.

There are some new conditions in construction financing; for instance, the almost universal requirements for amortizing mortgages seems to call for a different type of equity financing as compared with the speculative financing which was prevalent in the twenties.

There are many other problems facing the construction industry. Such problems as liberalizing building codes are in the province of State and local legislation. Others are in the realm of private-industry action. Among the latter, I would include that of devising adequate and satisfactory equity financing for housing and commercial building projects. After wartime controls are lifted, both rents and construction costs are likely to rise above present levels. It will be up to the producers and suppliers of materials and equipment, and up to the building labor to keep price and wage increases within reasonable bounds, so that construction costs will not get out of line with general commodity prices and with rents. This will, I believe, be a continuing responsibility.

I think the post-war construction market may be more sensitive to rapid price changes than was the case in the 1920's. It will be necessary not only to exercise restraint on price and wage increases, but also give all possible scope to cost-reducing improvements in construction materials and methods.

After we get past the threat of post-war inflation we are likely to swing into a construction boom, with a real danger of speculative excesses of the type and character which developed in the 1920's and brought on the depression of the 1930's. We have never yet in this country controlled post-war inflation or a post-war boom. Those will be major problems, and if we are to have a free economy, they will have to be solved largely by the self-control of investors and of industry.

I am hopeful that we can manage our post-war problems more wisely than we did in the 1920's. We can profit by understanding the mistakes that we made in that previous post-war era. We can profit by planning in advance to avoid such mistakes and thus to realize in full the great potentialities for sustained prosperity that lie ahead. Never before in our time have so many competent, well-informed people, in and out of government, been giving so much constructive thought to the problems of the country's long-range future.

I think I have indicated a quite optimistic view of the future of the construction industry, and I have done so in full realization of the big problems ahead, in the field of government, and of legislation,

and in the field of industry itself; but I think we need an atmosphere in which people can solve those problems in a spirit of hopefulness rather than in a spirit of defeatism.

The CHAIRMAN. I think your statement has been a splendid one in the field of post-war construction. It certainly is indicative of a very great deal of thought in its preparation.

To summarize the amount of post-war construction that we might expect in private enterprise in the years following the eventual victory, you estimate that there would be some \$9,000,000,000; is that all—I want to get the addition of the \$9,000,000,000. I understood you to say that 20 percent additional to that.

Mr. HOLDEN. Well, the nine billion—I did not mean to give as a measure of post-war construction volume. That figure is merely the sum total of a list of contemplated projects that we have accumulated up to the present moment. There is no indication there that all of those would be built in 1 year or 2. Forty percent are in the actual designing stage. Estimates of actual value are made only partly on the basis of this accumulated list of projects and partly on an analysis of economic factors in the previous post-war era of the 1920's.

My estimate for the 10 years following the war was double the average annual volume of the 1930-39 period.

The CHAIRMAN. How much was that?

Mr. HOLDEN. Taking the over-all estimates of the Department of Commerce figures, I think that runs to something like nine billion, six hundred million a year, of new construction—

Mr. FOLSOM. Out of 1930-39?

Mr. HOLDEN. No; that is double the average annual figure on 1930-1939.

Mr. FOLSOM. That is what you estimated?

Mr. HOLDEN. That does not include maintenance and repairs. Most other people who have made estimates have estimated higher figures. We believe it is sounder to estimate on a conservative basis.

Mr. FOLSOM. What estimate of repairs and maintenance?

Mr. HOLDEN. If it ran three billion, that would be, say, 12½ billion dollars over-all for the entire continental United States, including maintenance and repairs and new public and private construction.

The CHAIRMAN. What I am trying to arrive at, is your estimate of private construction in, say, the 10-year period following the conclusion of the war.

Mr. HOLDEN. I would say private—my figure was over-all, including private and public. Private would run within that figure; would run 9½ to 10 billion dollars. I would say, including maintenance and repair.

The CHAIRMAN. Of course, I gather also from your statement that you rather emphasize the private construction as opposed to Federal Government construction?

Mr. HOLDEN. Yes; except there are certain normal types of construction regularly undertaken by the Federal Government which were customarily done before we had emergency programs. Naturally, I mean things like custom houses, post offices, rivers and harbors—

The CHAIRMAN. Naturally, that would go on.

Mr. HOLDEN. Normal feature of our governmental program.

The CHAIRMAN. So far as the question of employment is concerned, you emphasize private construction rather than Federal?

Mr. HOLDEN. I think the construction records of the '20 and '30 decades show it. In the '30 decade we tried to stimulate private employment through public works relief, but conditions were not favorable for large volumes of private investment until the war came along; whereas in the twenties when private construction was between three and one-half to four times the volume of public construction we had no serious unemployment problem. So that, so far as construction taking care of an employment quota is concerned, I think every one agrees we must have a very large volume of private construction and that volume should be several times the volume of public construction.

The CHAIRMAN. You would not be prepared to break that down, this construction period, into a period of years; in other words, what we might expect a year, in construction a year, after the war?

Mr. HOLDEN. My guess is that during the first 12 months after the war you will reach possibly half or a little better than that of this annual average.

The CHAIRMAN. Annual average around a billion dollars?

Mr. HOLDEN. Annual average, including everything. The overall would be about $12\frac{1}{2}$ —I would say not much more than that. Well, it might run maybe 7 or $7\frac{1}{2}$ the first year. The whole question is getting materials fast enough. There is a lag there.

After the last war, there was a hesitation on the part of the people who feared drastic drops in prices.

I happened to take a job with the Department of Labor directly after I got out of the Army the last time, and I had to make a study of the price situation at that time, and became very familiar with it. There was a lag for several months in construction revival due to the fear of a fall in prices. What actually happened was that prices went up instead of falling. When people saw that trend, they began to let contracts.

Then, of course, as I pointed out, people will not go in for investment projects until rent ceilings are lifted. We do not know at what stage they are going to be lifted. At the present time, under controlled rents the return on investments would be quite inadequate to cover costs. It is our experience in price controls that rent controls are much more effective and hold much more stable than prices of commodities; rents on the average have gone up just about $3\frac{1}{2}$ percent since 1939. Construction costs have gone up between 20 and 25 percent, so there is no inducement to an investor now, with rent ceilings on; and until he knows what capital costs are going to be, and until he sees whether the rents will pay him a return, say on an apartment house project or a commercial building project, he cannot afford to start an operation.

So those things, plus the scramble for materials in the first few months after the war, or after the controls are relaxed, tend to delay somewhat this revival.

The CHAIRMAN. What I was ultimately trying to get at was this: What could we expect in the way of annual employment from the construction industry?

Mr. HOLDEN. I think when it gets up to the time, when the estimated average post-war volume is realized you would have between three and four million people employed directly in construction.

The CHAIRMAN. Again, is that from private—

Mr. HOLDEN (interposing). From everything.

The CHAIRMAN. That is, Federal—taking into consideration the normal Federal activities.

Mr. HOLDEN. And State and local activities.

The CHAIRMAN. Yes; that is just—

(Discussion off the record.)

Mr. COOPER. Let us get back on the record.

I would like to inquire, briefly. I notice on page 2, you make the statement that there has been estimated that 2,734,000 new nonfarm dwelling units were produced in the 1930-39 decade, compared with an increase of 4,450,000 nonfarm families; was that number of increase in families during that decade?

Mr. HOLDEN. Yes; families living everywhere except on farms. The figure on the dwelling units is the estimated Bureau of Labor statistics and the other figures are from the Department of Commerce.

Mr. COOPER. And during that 10-year period we had an increase of about 4½ million families in the country?

Mr. HOLDEN. Yes. Not counting the farm families.

Mr. COOPER. I mean nonfarm families.

Mr. HOLDEN. Yes.

Mr. COOPER. On page 3, you state—about two-thirds the way down—

Various surveys of construction needs and various estimates of construction volume have been made.

Then you refer to your own company staff making an investigation as to specific projects, and so forth, and state—

the aggregate estimated cost of which amounts to \$9,130,521,000, plus—

Mr. HOLDEN. Yes.

Mr. COOPER (continuing).

Of these over 40 percent, by number and value, have advanced to the designing stage. These projects include none located in the 11 Rocky Mountain and Pacific Coast States—

and so on.

In spite of the vast size of this indicated program, it is not, in detail, a representative picture of the post-war construction market. Two-thirds of the projects, by number, are private projects.

Mr. HOLDEN. That is right.

Mr. COOPER. Does that include all kinds of private projects?

Mr. HOLDEN. Yes.

Mr. COOPER. Family dwellings, residences?

Mr. HOLDEN. Yes.

Mr. COOPER. Any buildings that might be built by private interests?

Mr. HOLDEN. Right. Well, there are about 50 classifications. I have the list here [indicating] of different classifications—banks, stores, commercial warehouses, hotels, dormitories, and the like, with detailed figures on each one.

Mr. COOPER. And that means that about \$10,000,000,000 worth of private construction has advanced to the blueprint stage?

MR. HOLDEN. No. That figure covers projects in the preliminary or contemplated stage. We know it is not complete, because we are adding more projects to our listing every day. For projects in the blueprint stage, the total for this 37 States territory is nearly \$4,000,000,000, of which about three-fourths is public construction, or nearly three billions, and a little over \$1,000,000,000 is private.

I would like to explain further. We normally report day by day, current construction projects, whether in the contemplated stage, the designing stage, ready to let contracts, ready to take bids—that has been our activity since 1892. We get that information largely from the planning factor. We get it from architects, engineers, builders, real estate developers, and others. We check with municipal building departments, and so on. To get this information on these post-war projects, we have had to tap entirely new sources, mostly owner sources, because a vast volume of these projects has not yet gotten into the planning stage. So we have had to develop experimentally some new procedures to get the information on these projects. For instance, we have worked with savings and loan institutions and savings banks to get information on single-family houses. We are contacting people in the hotel field, if you please, to get the information on hotel projects and similarly in other fields.

That is going on currently and building up a listing of those private projects at a much faster rate at the present time than in the earlier months when we started reporting post-war projects. That is one reason why our showing on this is weak, on the side of actual listing of private projects, as compared with public projects.

Another reason is, I think, the fact that public planning is actually ahead of planning of private projects. Many public agencies, State highway departments and others, have got staffs of people they are maintaining through the war period, who are barred from doing their current work, and are kept busy on plans on future projects. Also, they have been encouraged to proceed with their planning. Some of the States have advanced money to the local governments to pay for the preparation of blue prints.

New York City, which has quite a large post-war program, all blue-printed; I think it was 2 years ago that the city made an appropriation of about \$22,000,000, to pay for these plans. That was partly used to employ outside consultants, partly used to staff up their own planning departments, such as those in the board of education, park department and other departments of the city that regularly prepare plans. Public agencies generally started on this at a much earlier stage. Their programs have been widely discussed; usually when they start planning, they like very much to get publicity on their programs and give out information very freely. Private information is slower in coming to us.

MR. COOPER. Let me ask you this specific question, Mr. Holden: What would be your estimate as to the dollar value of the backlog of private construction that would be ready to begin activity as soon as restrictions as to materials, and so forth are removed?

MR. HOLDEN. That is a pretty hard one, because "ready" depends on an awful lot of conditions. I would say private activity ready to go ahead might possibly amount to 8 or 10 billions.

I don't think you could construct that in the first year. I don't think materials will be available for it.

Mr. COOPER. That would have been my off hand guess.

Mr. HOLDEN. That is a guess, not something I could prove.

Mr. COOPER. I wouldn't expect you to prove it or I couldn't if you asked it. That would have been my off hand guess in the light of the very helpful information you have given us here. There would probably be an estimated backlog of about \$10,000,000 worth of private construction that could go ahead within a reasonably short time after present restrictions are removed as to materials and so forth.

Now, then, what would be your estimate as to the number of people to be employed, if such a thing happened?

Mr. HOLDEN. Well, let's see. Well, I would say up to a couple of million directly in construction.

Mr. COOPER. If there is about \$10,000,000,000 worth there, it would require something like 2,000,000 people to do that work?

Mr. HOLDEN. Yes. It is my belief, as I remarked there, the first thing you have got to get is manpower.

Mr. COOPER. I understand.

Mr. HOLDEN. You have got to employ people in the logging camps to get the lumber before you start building houses, and so on through the building-material industries. So far as construction labor is concerned, while there are some idle people today, there are also a great many of them in the armed forces, either working at construction in the Seabees and in various construction units on all other—

Mr. COOPER. And those actually carrying guns, too.

Mr. HOLDEN. So we couldn't reemploy all of the people who have previously been employed in the industry. They won't be there. It will take time for them to get back.

That view was concurred in by one of the building labor leaders of New York City in a recent conversation. He is very much disturbed at present over unemployment among the building trades in New York City. He says about 50,000 building trades union members are without jobs today. I made the statement I have just made to you in the industry committee meeting. He said, "I believe you are right. When the materials begin to flow I think we will have practically no unemployment." I made the further statement that possibly within 2 years after we get going we may have a shortage of skilled mechanics, and he said "that is probably true."

There has been formed in New York City a joint apprenticeship committee to study the supply and train apprentices so they will have trained men when the revival really gets going.

Mr. COOPER. What would be your estimate with respect to the availability of raw materials? Is it not true that there should be a large volume of raw material immediately available when the war ends?

Mr. HOLDEN. Raw materials; yes, sir. But take lumber. The raw material is in the form of standing timber and we don't know how long it will take to get enough men into the logging camps.

As far as metallic materials are concerned, the raw-material supply is absolutely adequate.

I think lumber is the only raw material at all critical.

When it comes to highly fabricated equipment, such as boilers and heating equipment and plumbing equipment and the other installed equipment that goes into a building, that will take some

time. That is where you have something of a reconversion problem, and it will take some time to get adequate supplies ready.

Take structural steel and reinforced steel, and so on. I think there is practically no trouble there.

As to quantities of material, we haven't got the information on that because it is not given out. There is a general belief that the armed services have enormous stock piles of lumber and pipe, and so on. It is only a rumor. We have no data. It is not made public. They may or may not. But undoubtedly there are large stock piles. They need it. And there will probably be some second-hand materials from demolished houses and the like, which will come into the market.

But as far as quantities are concerned, I don't doubt that people in the War Production Board have the information, but it is not given to the public.

Mr. COOPER. Would it be reasonable to assume that the proper military plan would naturally result in considerable stock piles being on hand?

Mr. HOLDEN. Certainly. There should be, and yet when V Day comes, it becomes surplus.

Mr. COOPER. Certainly.

Mr. HOLDEN. And available for the general market.

Mr. COOPER. I thank you.

Mr. HOLDEN. So I say, one problem is to obtain basic materials, such as lumber which is highly critical in many respects; and the other is the highly fabricated equipment installed in buildings. I think it will take a little time to build up adequate inventories.

Mr. ZIMMERMAN. The question of lumber is a fairly important part of this building program. We must figure the supply of lumber. There has been a tremendous drain on our forest reserves to get this lumber; in other words, during this war, there has been great demand for boxes, crates, and so forth. You have got to have lumber and you have got to build. I have wondered if we are not in a very serious bottleneck, and if the timber reserves are exhausted where are we going to get this lumber.

It seems we may not expect any speedy movement of the building industry, because we can't grow trees in a year. I wonder if that situation has been taken into account.

Mr. HOLDEN. I haven't made any careful study of this matter of reserve supplies of standing timber. I have seen some various statements about that. Of course, some of the lumber people, the big ones, can afford to maintain technical research work in finding ways of using lumber much more efficiently than before.

I saw a moving picture that was prepared by the Weyerhaeuser Co. showing how you can build up timber with small bits and pieces, with the modern methods of gluing that are so effective. I saw bits of lumber which had previously been wasted or burnt up made into structural timbers.

You have got new developments in plywood which are coming along. Of course for a number of years we have been developing wallboards and roofing materials that have replaced wood, and I think we are likely to see continued progress in that direction.

The lumber production in the last year or so has been down somewhat. The big factor in shortage is the thing you mentioned; that is,

the vast amounts which have been used for boxing and crating. I believe, if I remember correctly, the figure for boxing and crating this year is larger than the consumption for construction in the United States this year. That, of course, is going to continue—they will continue to use a great deal until we end the war, both with Germany and Japan. Boxing and crating is going to be a very important factor determining the availability of lumber for building purposes.

Mr. COOPER. I like your statement that industry is planning new ways of utilizing products heretofore classed as scrap timber for the purposes of building. Now, that might be a solution, and no doubt it will play a very important part in meeting this new emergency.

Mr. HOLDEN. Yes.

Mr. COOPER. But I feel we are going to have a longer period of getting into the building construction program due to the shortage of lumber than any other factor.

Mr. HOLDEN. There is no question about that, sir. That is the most critical factor in the range of building material, and that is one reason why we are not going to jump immediately into the full post-war rate of construction activity within the first 6 months after the war.

The CHAIRMAN. Any further questions? If not, we thank you for the very helpful information you have given the committee.

The committee stands adjourned until the call of the Chair.

(Whereupon, at 11:45 a. m., the committee adjourned until further notice.)

(The following statement was submitted for the record:)

GOVERNMENT PLANNING FOR A HIGH LEVEL OF EMPLOYMENT IN THE POST-WAR PERIOD

(Statement by Harold D. Smith, Director, United States Bureau of the Budget, before the Committee on Post-war Economic Policy and Planning, House of Representatives, in executive session, May 31, 1944.)

If we are to have a high level of employment in the post-war years, we must attain a wholly new level of production of consumer goods and services, and we must have peacetime development and enterprise on a wholly new scale. Thus, the problem facing your committee is not merely demobilizing and reconverting industry to peacetime production.

In looking ahead to the job to be done, it seems to me that we must visualize the adjustments in our economy that are necessary to assure continuously high employment and a high standard of living, and we must then determine the Government policies that are necessary to facilitate such adjustments. This is no mean task.

The achievement of high-level employment will depend in the long run on the ability of consumers to purchase and upon the willingness of business to invest. During the demobilization period, while we are laying the foundation for a high scale of private investment, measures must be developed to cope with whatever degree of inflationary pressure arises. Tax programs, credit programs, price and wage stabilization programs all have a bearing on incentives to invest, on the allocation of resources, and on inflationary pressures. They therefore require unified planning and continuous coordination. Moreover, they must inevitably form a framework within which termination of contracts, disposal of surplus property, and other demobilization activities must be carried out.

My comment a moment ago on the necessity for a new level of consumers' goods and services springs from a doubt that we in this country can utilize in the period ahead anywhere near the amount of durable products which we are now manufacturing for war purposes. In fact, an enriched standard of living and full peacetime employment cannot be achieved wholly by the production of things. Our doctors, our dentists, our hospitals, our schools, our churches, our Boy Scouts, our social centers, and our recreation programs illustrate an aspect of our standard of living which has great frontiers. In Great Britain the whole increase in

population between World Wars I and II was offset by a corresponding increase in persons engaged in services. That development must go on both here and in the world at large.

It is not my purpose to outline a program of specific economic measures designed to bring about adequate employment in the post-war period. Rather, I should like to emphasize the need of establishing the necessary machinery for the continuous development and adjustment of measures to achieve that end. I do so in the belief that well-planned and well-managed governmental activities can do much to help the Nation to move both rapidly and soundly toward a high and stable level of production, employment, and living. I do so in the further belief that failure to develop and move forward with a coordinated and consistent program directed toward such broad national objectives may well result in economic and social chaos. I think it particularly fortunate that this committee has undertaken to cope with these problems and has rejected the belief that planning for the post-war period will promote public complacency and interfere with winning the war. I feel that the committee, using the necessary assistance of the executive agencies, can render a great service to the country.

It is my thought that a high level of employment and living standards can only be realized and sustained through careful and continuous planning toward that end. While the vast amount of demobilization, transition, and post-war planning which is being done by private and semiprivate instrumentalities is valuable, the realization of sustained high employment will rise or fall on the actions which the Government takes or fails to take from time to time. Accordingly, I want to comment briefly upon the present status of governmental planning.

Government agencies within their individual spheres are doing a great deal of effective and valuable work in projecting their post-war activities. For example, the Department of Agriculture is studying (a) post-war credit arrangements necessary for the restoration of family-type farms on land released from military use and for the establishment of returning soldiers and war workers on farms, (b) domestic and world-wide food requirements and production adjustments necessary for their fulfillment, (c) the possibility of developing industries in rural areas, (d) the opportunities for settlers on land developed through drainage, clearing, and irrigation, and (e) the improvement of rural living conditions, the last named being studies in collaboration with several other agencies.

In like manner, almost every agency of the Government is studying the adjustments which must be made in its program in the course of demobilization and to cope with anticipated post-war conditions. The War and Navy Departments have special units working on plans for the armed forces after the war. The Public Roads Administration is spending \$60,000,000 for the preparation of highway plans for the post-war period. Many other agencies are similarly projecting public works and resources development activities.

As a further example, the State Department, acting with the aid of interdepartmental committees and basic work done in other agencies, is conducting intensive explorations of an international character in post-war transportation, communications, trade, and many other fields.

While much of the contemporary planning is isolated and compartmentalized, mechanisms exist which fill the coordination need in part. As you know, agencies have been set up to facilitate coordination with respect to such special demobilization problems as contract termination, the disposal of Government-owned surpluses, and the retraining and reemployment of personnel released from war work and the armed services. Within these spheres the establishment of the Contract Termination Board, the Surplus War Property Administrator, and the Director of Retraining and Reemployment should result in considerable coordination of planning for the transition from war to peace. Location of these agencies within the Office of War Mobilization will enhance their effectiveness in coordinating these broad programs.

There is one sort of coordination of planning which has gone on quietly for some years and which I have had particular opportunity to observe. This is the coordination of planning that is normally involved in budgeting. The annual review of estimates for Federal activities, and of the justifications for such estimates, constitutes a measure of coordination of the program planning of agencies. An attempt is made to relate each program to the total governmental program; this amounts to advance planning which permeates the whole Federal structure and which is coordinated in considerable measure by the Bureau of the Budget. Similarly, a great deal of day-to-day coordination of agency programs is achieved through the continuing relationships of Bureau of the Budget staff with agency representatives.

Despite the activities I have referred to, attention has not as yet been sharply focussed upon the main problem of creating circumstances conducive to continuous high-level employment. Aside from the work of this committee and of a similar committee in the Senate, that problem has been too long neglected. I agree that first things should come first, and to that extent it has been proper to emphasize, as has been done, the transitional problems encountered at the cessation of hostilities, such as contract termination, reconversion, property disposal, and measures for the benefit of returning soldiers. But the time is here when the continuing challenge of so ordering the economic activities of the Government as to facilitate continuously high employment should be accepted. It should be accepted not only by the Congress, as has now been done, but also by the executive branch as a whole, as contrasted with the executive branch functioning fragmentarily through its various components.

The meeting of that challenge—the challenge of a continuously high level of job opportunities and living standards—will be realized only by systematic and intensive planning to that end. Such planning should have for one of its major purposes the coordinating and the welding of the valuable and worth-while post-war planning activities of the various Federal agencies into a consistent whole. But, more important, it should include a frontal attack upon the problem of achieving full employment. Such planning, undertaken in the executive branch, would in no wise be incompatible with the efforts of this committee or similar committees of Congress. Indeed, I think the effectiveness of this committee and of the Congress in this field will depend in great measure upon intensive preliminary planning carried on in the executive branch.

I shall not attempt to catalog fully the planning that needs to be done, but rather to cite a few illustrations:

1. All governmental programs, existing or proposed, must be appraised in terms of their impact upon the fundamental national goals of continuous high levels of employment and living standards; and each individual program must be designed and appraised in terms of its consistency with a general governmental program which moves simultaneously with private enterprise toward these goals.

2. Policies for the termination of war contracts, the reconversion of industry, the demobilization of military and war industry personnel, and the disposal of Government-owned surpluses must be so conceived as to contribute to a high scale of employment and living; this requires not only proper planning with respect to each of the activities but also with respect to their mutual relationships and relationships with other Government programs and private enterprise.

3. Domestic programs and international activities must be coordinated, one with the other. Programs for stimulating investment at home and for developing countries abroad must be properly related. Programs for stabilizing raw material production and prices at home, and similar programs in the international field must be tied together. The effect of international monetary and trade agreements upon monetary trends and incentives to invest at home must be weighed. In general, what we do nationally and internationally must be so coordinated as to assure a suitable contribution to the national welfare.

4. The disposal of merchant ships and aircraft will need to be so arranged that we obtain the kind of a transportation system which conforms to our needs and desires.

5. Programs for social security, education, and public works must be closely correlated with manpower demobilization. As war expenditures fall off, it will become as important to bolster consumer purchasing power as to stimulate investment.

6. Not only must a public works program be geared to unemployment and to measures for stimulating private investment, but thousands of proposed projects submitted by governmental agencies must be examined and shaken down into a well-rounded program. In some cases this involves weighing and reconciling alternative uses of natural resources and conflicting or inconsistent proposals. For example, the rival claims of irrigation, navigation, and power development upon water resources must be considered and harmonized with one another and with flood control requirements. The detailed plans of projects will, of course, be prepared in the individual agencies, but the central task of planning remains, as does the job of relating local government programs to Nation-wide capital and employment needs.

7. The interest and loan policies of various Federal agencies should not only be consistent, but should be so ordered as to stimulate private investment, especially in small business.

8. Programs will need to be so conceived as to encourage small business and control monopoly. The relative position of big and little business will be greatly affected by policies of contract cancellation, reconversion, and surplus plant and property disposition.

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I shall not elaborate further what needs to be done. That the type of planning I have indicated must be done now means that it must be done under the handicap of concurrently planning for and carrying on the war, and the lack of available civilian personnel. This, added to the sheer magnitude of the factors involved, presents no small difficulty. But such planning cannot be deferred in view of the rapidity with which men, materials, and facilities released from war activities must be channeled into civilian production and peacetime life.

I have previously indicated that the subsidiary, intra-agency kind of planning is going forward; and that the main deficiencies are in coordinating that type of planning and in developing general programs conducive to full employment, which programs cannot be developed by any one agency.

These deficiencies add up to an inadequacy of planning facilities in the Executive Office of the President. In my judgment, here is where the greatest gap in our planning structure is to be found. From my experience in dealing with interagency problems I must frankly state that the existing planning facilities of the Executive Office are by no means commensurate with its needs. The magnitude and complexity of the task of interagency coordination is evident, I believe, from the illustrations which I have already cited.

Yet the staff available in the Executive Office for over-all planning is in reality very limited. For example, the Director of War Mobilization has but a handful of assistants to aid him in resolving intricate problems of coordination. I pointed out previously that the Bureau of the Budget does a great amount of work in the coordination of Government programs and in unifying departmental operations. However, the Bureau is not presently equipped to engage in the basic planning required to integrate the plans and programs of the executive agencies and to relate them to the broad national objectives which I have indicated.

As an example of present limitations of the Bureau of the Budget let me refer again to the review and coordination of public works. Federal agencies in response to a Presidential letter of May 22, 1943, have submitted suggestions to the Bureau of the Budget for tens of billions of dollars of public works and publicly aided private undertakings in anticipation of the need for a large public works program. These suggestions should be thoroughly appraised as to relative merit, as to needs for the various types of activities and structures, and as to their relation to a general program for capital and resource development. At present, staff, funds, and machinery to process these suggestions adequately do not exist.

I think the gap which I have pointed out should be filled by providing planning facilities in the Executive Office, the functions of which would be:

(a) To assist the Chief Executive and Congress in developing over-all programs to deal with problems which cut across agency lines;

(b) To aid the Chief Executive in coordinating interrelated programs and seeing that they focus upon the broad objectives which have been established; and

(c) To appraise continuously the effects of programs and advise on needed adjustments to achieve these objectives.

Planning such as I have described is inherently part of the responsibility of the President and cannot effectively be performed outside of the Executive Office. It demands perspective and a detachment from individual and often competing programs which are not to be expected of persons primarily concerned with a particular activity or agency. Moreover, the effectuation of such plans usually requires action by the President.

I am not prepared to suggest the precise organizational arrangement for such planning work in the Executive Office of the President, nor whether a new agency in contrast to a rearrangement of existing structures may be necessary. There are matters of detail which can most appropriately be determined by the President, as the head of the Executive Office.

I wish to comment on the fear, sometimes expressed, that the development of planning machinery in the Executive Office may encroach on the field of Congress in the determination of basic governmental policy. Such fears are not well founded. They indicate a failure to distinguish between planning and legislative decision. In making law, Congress always has drawn heavily upon the executive branch for data, analyses, and plans, but such material has been

weighted alongside the information and proposals derived from other sources and from original investigations by legislative committees. That is as it should be. Executive planning is properly supplementary to, but is not a substitute for, the type of work which your committee, for example, is doing. It facilitates the work of Congress in formulating legislation.

One of the obvious difficulties of the Congress is the maze of fragmentary, partially considered, and often inconsistent and conflicting opinion and analysis with which it is confronted on major issues and the limited time at its disposal for resolving the many issues before it. The more thoroughly problems can be explored by the planning machinery of the executive branch, the more quickly and accurately congressional committees can appraise them, discover and weigh the alternatives, and reach conclusions. This, I think, is particularly true in connection with the titanic task of achieving the goal of high employment in time of peace.

Finally, I should like to point out the choice that we face. We are now in the midst of a period characterized by a manpower shortage; in other words, substantially full employment prevails. The people will not forget it. They will not tolerate protracted heavy unemployment again. If they cannot get reasonably full employment in one way, they will try to get it in another. Thus, the choice is whether we shall achieve our goal by general planning and general management of our economy, creating general conditions in which the people will make their own jobs through private enterprise, or whether failure to do it in that way will lead us into detailed control and management of all our economic activities. If we are to do it by the general conditions we create, we must do adequate planning to that end. We must plan the general management of our economy, or perforce we shall be planning the management of business. Sustained full employment will not just happen.

0111

POST-WAR ECONOMIC POLICY AND PLANNING

THURSDAY, JUNE 1, 1944

HOUSE OF REPRESENTATIVES,
SPECIAL COMMITTEE ON POST-WAR
ECONOMIC POLICY AND PLANNING,
Washington, D. C.

The special committee met at 10:30 a. m. in room 1304, New House Office Building, Hon. William M. Colmer (chairman) presiding.

Present: Representatives Colmer (chairman), Cooper, Walter, Voorhis, Lynch, Worley, Reece, Welch, and Wolverton.

The CHAIRMAN. The committee will come to order.

We are a little handicapped this morning in that the official reporter has not appeared. Miss Sims of our staff is going to substitute.

Mr. COOPER. Do you have a prepared statement to present to the committee?

Dr. TAYLOR. I have a prepared statement, but I thought I would outline it, in more or less my own way, in presenting the statement before the committee. I thought it would save some time, and the statement will be available for the record.

There is a certain amount of discussion on savings on which I thought it might not be necessary to take time.

The CHAIRMAN. You may handle it in your own way, please.

STATEMENT OF DR. AMOS TAYLOR, DIRECTOR, BUREAU OF FOREIGN AND DOMESTIC COMMERCE, DEPARTMENT OF COMMERCE

Dr. TAYLOR. I believe it was the purpose of the committee to have me outline the question of post-war savings, their accumulation, their volume, and their importance as a factor in the level of business activity after the war.

I do not believe it is necessary to suggest definite definitions of savings. I simply want to call your attention to what we mean by savings as applying to the figures and estimates which I shall present here.

Simply stated, we mean by net additions to the savings of individuals, a figure that is equal to the amount by which individuals' money incomes, after allowing for taxes, exceed their purchases of consumers' goods and services.

In the case of corporations we mean the amount by which the gross receipts from sales exceed purchases of goods and services, including purchases of capital goods, so that the total additions to nongovernmental savings are equal in any year to the difference between total private income and total private purchases of goods and services; or in other words, the amount of unspent income which individuals and nonfinancial corporations carry forward from the year's operations.

Now on that basis we have for the 3 years since our entry into the war, 1942, 1943, and 1944, as estimated, more than \$120,000,000,000 in accumulated savings. These fall into three categories: (1) the savings of individuals; (2) the savings of nonfinancial corporations, and (3) the net amount growing out of sales, in the United States, by nonresidents of goods and services leading to balances and other assets in this country which represent claims of foreigners. This last is relatively a small amount, but nevertheless is one of the three items under which the general categories of accumulated savings are considered.

Now in this first group, I might say that this figure of \$120,000,000,000 or \$128,000,000,000 to be more exact, as estimated—will grow during the course of the war; assuming, of course, that there are no important changes in tax policy.

The savings of individuals during this 3-year period are approximately \$95,000,000,000, of which about \$82,000,000,000 exists in very liquid form such as currency, bank deposits, and Government bonds. The savings of nonfinancial corporations is 29.1 billion dollars, and the amount representing dollar claims held by foreigners—the net amount added since the beginning of 1942—is a little more than \$4,000,000,000.

Mr. REECE. If you don't mind, I would like to interrupt to clear in my own mind with reference to corporate savings. Do the savings of corporations, as listed by you, include corporate reserves?

Dr. TAYLOR. You have in mind there whether the corporate reserves are held but the savings added? I would like to suggest to the Congressman that in compiling these figures, for statistical reasons several shifts had to be taken into account as to what is included in corporate savings. I would like to ask Mr. Livingston to explain that.

(Since Congressman Reece was absent when Mr. Livingston took the stand it is suggested that the record be amended to include the following answer to his question.)

Mr. LIVINGSTON. The \$29,000,000,000 of corporate accumulations includes the depreciation and other business reserves and undistributed profits over the 3-year period minus the expenditures for capital goods.

Dr. TAYLOR. I would like to say a few words about the form in which these individual savings are held. As I mentioned a few minutes ago, out of \$95,000,000,000 of savings of individuals, \$82,000,000,000 are held in highly liquid assets; currency and deposits, 42.3 billion dollars; United States Government bonds, 39.7 billion dollars; and then the remaining \$13,000,000,000 are held in less liquid assets—the exact categories of which I don't think I need recite. I might simply say that they include such items as liquidation of consumer debts, increased equity in private insurance, increased equity in nonfarm dwellings, and so on.

The form in which the nonfinancial corporation savings are held is currency and bank deposits of 38.1 billion dollars, of which, however, we should rightly deduct the figure of 9.4 billion dollars, representing net business tax accruals so that the actual amount of savings under currency and bank deposits of nonfinancial corporations would be approximately \$28,000,000,000; and then a relatively small item of 1.4 billion dollars should be added to that, representing additions in the form of net claims of corporations; or, in other words, an upward shift in the debtor-creditor position of nonfinancial corporations. I

might say that the figures are shown in detailed form in the statement which I have had prepared for the record.

Now when we consider the importance of these savings as factors in post-war recovery and business, we have to deal with quite a number of uncertain factors. By way of showing how significant these figures are in point of size, it may be worth while to make several comparisons. Prior to 1941 these savings as defined here never exceeded \$10,000,000,000 a year. In fact, the annual average for the previous decade was less than \$5,000,000,000. Again, if we take this \$95,000,000,000 increase for the years 1942-44 representing savings of individuals, we have a total larger than the total incomes of individuals in the best pre-war years, or if we take the \$82,000,000,000 representing individual savings in highly liquid form, we have a 3-year figure which is approximately three times as large as the corresponding addition to liquid asset holdings of both individuals and corporations during the period of our participation in the First World War; in fact, a slightly longer period, from April 1917 to June 1919.

Now the question as to whether these \$82,000,000,000 representing highly liquid assets held by individuals will be spent after the war or how they will be spent, raises a problem to which no categorical answer can be given. That is, of course, by far our most important item. We might note that it includes about \$15,000,000,000 in holdings of unincorporated business. Unincorporated businesses are included in the category of individuals for our estimates of national income and savings. Since we might look upon those as really an addition to business savings, we are concerned with the remaining \$67,000,000,000.

The CHAIRMAN. Mr. Reece.

Mr. REECE. If you don't mind another interruption—the benefits or at least the benefits which we have provided for veterans by the way of laws, and others of that kind which in all probability will amount to several billion dollars, will come into the same category so far as the effect of the economy is concerned?

Dr. TAYLOR. I was going to come to your question in a point which I was going to make in a minute. On this point of \$67,000,000,000, I just wanted to say that it is quite certain, on the basis of the actual statistics of income and its distribution, that a relatively large part would fall within the category of individual incomes of \$15,000 a year or less. As a matter of fact, although we don't know much about the fact of actual distribution, it is quite certain that very large part relates to incomes of more than \$2,000 and less than \$15,000 per year. I do not have the statistics that would make possible a definite break-down by income category. Yet, I think it is well to call your attention to the fact that a very large part of the \$67,000,000,000 I have just been referring to would represent the accumulated savings of people in what you might call the the middle-income groups.

In outlining this problem, I anticipate one question that quite naturally suggests itself here, and that is how the volume of savings, especially in these income categories, can be so high in light of the fact that after all the expenditures for consumer goods have kept up a very high level. The answer to that is not determinable in any definite way, but we have the national income and related figures as a basis, and I think it is perhaps correct to suggest that where you have individual cases of heavy expenditures through an

increase in income we are always more likely to have these called to our attention. We are more familiar with them and they are perhaps more dramatic.

I might call your attention to one or two other points here by way of presenting this general outline. As you know, I have not attempted to show how these accumulated savings will be spent for the very simple reason that there is no way in which one can do that. It depends upon a number of conditions. There is, however, one factor which I think it important to call to your attention. The existence of these savings does not necessarily mean they need to be spent in order to make their influence felt, for the reason that with individuals having a backlog of spending power accumulated during the war, it is reasonable to think that there would be less hesitancy to spend current income with the result that net accumulated savings would not necessarily undergo any diminution after the war.

Mr. WALTER. Of course, that presupposes a steady income?

Dr. TAYLOR. I was just going to add that people would be more inclined to spend freely out of their income, and that would, of course, be a factor in sustaining business activity because of the support that less hesitant expenditure out of current income would provide as a means of keeping up the demand for consumers' goods and other goods. I merely call attention to it because I think we cannot safely think in terms of just drawing upon these savings and looking upon them as a substitute for current income, which they are not as a matter of fact. If they were to be viewed as a substitute for current income to fill the gap, despite their size they would not be sufficient to sustain the national economy over any prolonged period. But the mere fact that they do provide a reserve of spending power may prove very important in the transitional period.

As to just what extent individuals will draw on their savings and for what purpose, I think it is quite safe to suggest that among the factors that would determine that would be such things as the length of the war and the general public reaction as to the immediate future of business. We would expect people to react differently in case they should anticipate the possibility of losing their jobs as against having a greater sense of security, and no doubt it will depend upon various other factors having to do with the sustaining of our post-war economy, generally.

Mr. Chairman, in the statement which I brought with me, and on which I drew in presenting this brief outline, there are several tables showing in considerable detail the estimated source and detail of this estimate, additions to accumulated savings, the estimated disposition of savings, and finally the estimated division of nonfinancial corporate savings after deducting capital outlays.

The more important items in those tables I have referred to; and unless there should be questions calling the others into discussion at this point, I shall just dispense with that, with your permission, and have them included in the record.

The CHAIRMAN. It is so ordered.

(The statement referred to was marked "Exhibit No. 13" and is included in the appendix on p. 489.)

Dr. TAYLOR. Now, as I suggested a little while ago, some of the technical points bearing, for instance, upon Congressman Reese's question and perhaps on some of the others, you may wish to have

Mr. Livingston explain a little more clearly and show how these items are brought together.

The CHAIRMAN. That is fine. Before we do that, I might suggest that it might be in the interest of orderly procedure if there are any other questions that might be asked bearing on your statement. Mr. Walter?

Mr. WALTER. Mr. Taylor, have you any idea how much accumulated savings can be expended on consumer goods?

Dr. TAYLOR. I do not believe that I am in a position to suggest any figure on that. I might call attention in this connection to an effort we made in the Bureau of Foreign and Domestic Commerce sometime ago—not so much in estimating expenditures in particular categories, but for the guidance of business, as well as for our own—to project into the post-war years the expenditures in particular categories during past years, on the assumption, of course, that the relative importance would not change. This may, of course, in cases involve totally erroneous assumptions but it did give us a working basis.

Those figures were brought together in a detailed table, and at the moment I do not recall just what they do show by the main categories. I think Mr. Livingston and Mr. Weiler may be able to amplify that somewhat. They prepared the report I have just been referring to.

The CHAIRMAN. Anything further? Mr. Reese, do you have something further?

Mr. REESE. Has an estimate been made by your Bureau as to the amount of what might be called deferred purchases, such as automobiles, refrigerators, and so forth? I was just estimating in my own mind on the basis of the distribution of 3,000,000 automobiles a year that it would probably run something over \$3,000,000,000 for each year for automobiles.

Dr. TAYLOR. Mr. Congressman, we have prepared no public estimates on those items. In the automobile industry, in particular, we have prepared figures which I suppose might be called estimates based on different assumptions, one of the important assumptions bearing on the length of the war; because in the case of automobiles you have an accumulative factor operating which will naturally lift up the demand at a more or less progressive rate as the war proceeds from one year to the next.

Those estimates are more or less of a byproduct of the general study on the projection of expenditures in particular fields I referred to. I find myself referring for most of these to Mr. Livingston. But they are a part of a general survey, and I would like to have him elaborate on that.

The CHAIRMAN. Anything further? Mr. Voorhis?

Mr. VOORHIS. What did you include in your figures for total accumulated savings?

Dr. TAYLOR. You mean by categories?

Mr. VOORHIS. Well, you gave a figure of one hundred and twenty-eight billions.

Dr. TAYLOR. One hundred and twenty-eight billions net addition to accumulated savings over the 3-year period.

Mr. VOORHIS. For net addition to accumulated savings?

Dr. TAYLOR. That is right.

Mr. VOORHIS. Now that means increased national debt?

Dr. TAYLOR. That is right.

Mr. VOORHIS. And what else does it mean, if anything?

Dr. TAYLOR. Well, it represents virtually the net result of purchases by Government over and above the Government income and it reflects the limited expenditures by individuals as compared with their higher income.

Mr. VOORHIS. I know, but I am not asking you that. I want to know in what form is this net addition evidenced?

Dr. TAYLOR. It is evidenced in increases in currency in circulation, bank deposits, Government bonds, and then a number of minor items.

Mr. VOORHIS. I wondered why it was not more than \$128,000,000,000. I should think it would be even more than that. Just let me ask you this: What did you do—take demand deposits and savings deposits 3 years ago and subtract them from present demand deposits and savings deposits?

Dr. TAYLOR. That is right.

Mr. VOORHIS. You did the same thing with the national debt, roughly?

Dr. TAYLOR. Well, with the Government bonds as held by individuals and nonfinancial corporations.

Mr. VOORHIS. And nonfinancial corporations, but you do not include bonds bought with new money in the form of newly created commercial bank deposits? What did you do about that?

Dr. TAYLOR. Well, I think, Mr. Congressman, in connection with Government bonds sold to commercial banks, your net increase to the savings of individuals would simply grow out of the expenditure of those funds and not be duplicated by the amount of those funds held by the banks.

Mr. VOORHIS. But you have got to pay them back with interest. As far as the bank is concerned, it has got a Government bond.

Dr. TAYLOR. I do not believe you could speak of those as savings.

Mr. VOORHIS. Well, I certainly do not think they are legitimate savings. I think they are very illegitimate savings.

Dr. TAYLOR. They are not savings as we define the term.

Mr. VOORHIS. From the bank's point of view, they do have an interest-bearing bond, which they presume, and I presume, is good, and from their point of view it is a safe investment.

Dr. TAYLOR. In my opinion, as I pointed out, there may be differences in definition of savings, and I confine myself—

Mr. VOORHIS. In any case, you did not include bond purchases by commercial banks?

Dr. TAYLOR. That is right.

Mr. VOORHIS. Well, that is the answer to my question. If I will not be taking up too much time, I would like to ask a couple more questions.

The CHAIRMAN. Go ahead, Mr. Voorhis.

Mr. VOORHIS. You spoke about savings as the possible source of consumer demand immediately after the war, and I understood you to indicate you felt that reliance could be placed upon them to provide a very substantial demand for consumer goods at that time, and thus perhaps aid in speeding reconversion; is that right?

Dr. TAYLOR. I think I pointed out that these accumulated savings can hardly be looked upon as a source of funds isolated totally from current income as a means certainly of bringing about and maintain-

ing recovery, entirely apart from the fact of the importance they may have during the reconversion period.

I think in connection with reconversion—which is rather a complicated problem and which I would not attempt to discuss—they might be fairly important.

Mr. VOORHIS. My question involves not the reconversion period—I mean the one I am about to ask—because what I want to ask you is: Is it not true that over a considerable period of time, at least since the First World War, that by and large the accumulation of investment funds by individuals and by corporate investors, both, has tended to outrun the opportunity for profitable investment? Has not that been one of our major economic problems?

Dr. TAYLOR. I do not know whether I can answer that question very satisfactorily. Frankly, I have not had occasion to—

Mr. VOORHIS. Well, that is the general position financial institutions take, is it not?

Dr. TAYLOR. That is right. I think on that particular problem I would like to defer to the two gentlemen whom I have here from the Department, who have done considerable work in that field. I could not follow you through on that for the reason that I have not been directly identified with any of the studies in that field.

Mr. VOORHIS. Let me try this one, then, and I will stop: Would you agree, or would you not agree, that the opportunity for profitable investment of savings funds is directly dependent upon the volume of consumer demand for consumer goods, and that that is the ultimate factor in making possible profitable, full investment of savings funds?

Dr. TAYLOR. I would certainly agree with you. It is an exceedingly important factor, as I pointed out a while ago, because of the mere fact that you could, as the result of these accumulated savings, encourage people to use their current income more freely, which would obviously flow in large part into consumer goods.

Mr. VOORHIS. I think it is more fundamental than that. I mean that, with the volume of consumer goods which is only adequate to take care of the consumer demands for goods which can be produced under existing conditions, there certainly cannot be much opportunity for truly profitable investment under those circumstances, can there?

Dr. TAYLOR. I think on the basis of your assumptions, that is quite correct. I agree with you.

Mr. VOORHIS. In other words, unless consumer demand constantly increases, there cannot be an opportunity for an increasing flow of investment?

Dr. TAYLOR. That is right.

The CHAIRMAN. Mr. Taylor, if I understand you correctly, we have a proportionately larger backlog of savings in this country than we have ever had in the history of the country; is that correct?

Dr. TAYLOR. That is correct.

The CHAIRMAN. Now I assume from your statement, further, that there would likely be a tendency by these persons who have saved this money to invest it in goods that they have been denied, such as automobiles and refrigerators, and so forth, that they have not been able to buy on the market.

Dr. TAYLOR. That is a rather general proposition, but that is correct.

The CHAIRMAN. What proportion of these savings would likely be spent by these people who have these savings, say in the year im-

mediately following the war? What I am trying to get at is, saving is more or less of a habit, is it not, of individuals—a pretty good habit, too? He gets in the habit of saving just like he gets in the habit of spending. What is running through my mind is that, having acquired that habit through more or less necessity, he might be inclined to go along and continue to follow the habit once established. What is your reaction on that?

Dr. TAYLOR. I think first of all there are different incentives toward saving, normally. We have perhaps two or three that might particularly be emphasized—the idea of saving for the purpose of investing in something that would yield a return; or it might be for the purpose of acquiring some form of durable goods, consumer goods, or something of that kind, which it might not be possible to take care of out of current income; or it might be primarily for the purpose of protection against an uncertain future.

The CHAIRMAN. Of course I had reference to the individual.

Dr. TAYLOR. That is right. Now during the war there has been, of course, the additional incentive that might be referred to as patriotism. In considering disposition or any change in these savings after the national emergency we can no doubt assume that in many individual cases some of these incentives that were strong during the war will not remain that strong, so that there would be a greater inclination to draw on these savings, regardless of current income.

The purposes for which this might be done goes somewhat along the lines of those you mentioned, the purchase not only of automobiles, but perhaps of better houses, or the purpose of private maintenance of dwellings, and catching up on other kinds of things, repairs, and so forth, that could not be taken care of during the war.

Now I think that is a very important factor, and this is one reason, I would say, why it is exceedingly difficult to advance an actual estimate.

The reaction of individuals after the war will depend not simply upon the size of their individual savings, it will depend upon their view as to security in the immediate future. Their views with regard to various possibilities will have some influence, and anticipation of higher prices might quite conceivably add to the propensity for using savings as a means for compensating for loss when purchasing goods at those higher prices. There are, on the other hand, other factors to be considered, especially as the result of probably wider supply of goods of different kinds after the war.

Mr. WALTER. How soon after the war? You cannot stop making machine guns on Saturday and start making automobiles Monday morning.

Dr. TAYLOR. No. It would be related in part to the speed with which the reconversion will be carried through.

Mr. WALTER. That is exactly what I have in mind. I am wondering whether or not, because there is a dearth of durable consumer goods, it is not absolutely essential that there be some sort of elemental controls, so we will not have inflation, because these people who have been deprived of the opportunity to spend their savings will be willing to pay almost anything for whatever it is they happen for the moment to want.

Dr. TAYLOR. I think in any event it is quite safe to say that if the return flow of accumulated purchasing power—the return flow to

consumer markets, for whatever the reasons may be—comes at a rate entirely out of line with the rate at which and the degree to which we can reconvert to peacetime production, then the danger of inflation would be real and would add to whatever other reasons there may be for maintaining or instituting certain types of controls during the transitional period. Personally, Mr. Congressman, I think your point is well taken on that, but it is impossible to state it in statistical terms.

Mr. WALTER. Well, nobody has a greater abhorrence for governmental control than I have. I am wondering what will happen immediately after the war, when these accumulated savings will be literally burning holes in the pockets of our people, if there are not some sort of governmental controls as to prices.

Dr. TAYLOR. Of course your question rests on the assumption that people in general will be very eager to spend their accumulated savings. And as I pointed out, I do not know that we can necessarily take that for granted. Depending upon a number of conditions, it may be true. It is not only the question of reconversion, but the whole problem of maintaining a stable position after the war that will have a very important bearing upon the average individual's reactions as to the disposition or utilization of his savings.

Mr. WELCH. Dr. Taylor, can you tell us something with reference to finding foreign markets for our surplus commodities after the war when we swing into full peacetime production?

Dr. TAYLOR. That is a rather large question. I do not know just where to begin. I think this much certainly can be said, Mr. Congressman, that the foreign need for materials in connection with rehabilitation and reconversion will be very great, but that fact, or the recognition of that fact in itself, of course, does not provide us with the answer, because we have to consider the problems of financing the movement of those goods. And that immediately opens up a whole series of questions which I would neither consider myself qualified to go into, nor would I venture to make any guesses.

Mr. WELCH. Well, it will be only a matter of time until we will catch up with the shortage of goods and commodities in this country due to the war. And as you know, we were producing 10 percent more than we consumed for years before the war, and it is expected we will produce still more. What recommendation have you to make to the committee as to the means of finding foreign markets for our surplus commodities, both from the factories and farms?

Dr. TAYLOR. I think the answer to your question, Mr. Congressman, depends almost entirely upon the level of employment and business activity we can maintain in the United States. To that extent it is really first of all a domestic question, because our ability to purchase from the outside world the raw materials for our industrial machinery is directly dependent upon the level of activity we can maintain here.

And a relatively large part of the buying power that we provide normally to foreigners for their purchases of goods would have to come from our purchases of raw materials, semifinished products, and finished products, at a time when our business activity is relatively high and our national income is high. I think for that reason any recommendations would first of all have to rest definitely on the assumption that whatever plans are carried out relative to the maintenance of full employment and business activity in the United States

and can be molded into a policy—whatever that policy may be, it must be carried out with a view to keeping up our national income and business activity at home.

The only other alternative, I think, would be some device whereby we would keep our exports moving through foreign loans, and I am not suggesting that those should not play an important part. The only point, however, is that unless our supply of dollars to foreigners through lending is to be identified with commercial operations on a large scale so as to overcome the difficulties of foreigners in meeting their obligations here, then we would have to depend primarily upon our own need for foreign materials—foreign-produced materials—to keep our own industrial machine going—as the means of making those dollars available.

MR. WELCH. What percentage of foreign materials is used in American industry; relatively small?

DR. TAYLOR. Well, our total imports, are normally a relatively small part. I do not recall the exact percentage.

MR. WELCH. Raw materials?

DR. TAYLOR. I might put it this way, that our total imports are about 11 or 12 percent of the total world imports, that is, all goods cataloged in the reported import figures of the different countries as imports.

Now, a relatively large part, and I do not have the figure before me, of those imports are raw materials. In fact, a very large part are duty-free because of the fact that they are essential to our industries.

Of course before the war, one fairly important item was rubber; for a long time, silk was very important. Those may be less important in the future as actual sources of foreign buying power here.

But it is correct to say that the extent to which we were able to provide the foreign-owned buying power exports were stimulated. Exports did go up and down very appreciably in line with our level of business prosperity, and they did provide a very substantial part of the dollars needed to keep the exported goods moving out of the United States.

MR. WELCH. You feel that we will return to the conditions that prevailed before the war, and purchase such commodities as rubber, or manufacture them within this country, or have we proven they can be manufactured?

DR. TAYLOR. I do not know, Mr. Congressman, that I can express a view on that, because of the fact that, especially with rubber, it is so closely related to technological problems growing out of our own synthetic production, that I would not want to venture an opinion without careful study. I know that there are different opinions on that subject. I would not attempt offhand to appraise the relative strength of either.

MR. WELCH. We are not only making synthetic rubber, but we are making good natural rubber in this country.

DR. TAYLOR. There has been a definite upward change in that. Also, we have encouraged production of natural rubber in the other Americas, that we have drawn upon, at least in the war, which will provide a larger source of our own needs than before the war.

THE CHAIRMAN. Anything further, Mr. Welch?

MR. WELCH. No.

THE CHAIRMAN. Mr. Folsom, do you have any questions?

Mr. FOLSOM. I wonder if you have any more specific information on deferred demand, that you might present to us?

Dr. TAYLOR. I might say on the question of deferred demand, I had especially spoken to Mr. Livingston in case the question should come up, and he will be better prepared to deal with it.

The CHAIRMAN. Well, then, we might hear from Mr. Livingston. Mr. Livingston, we will be very pleased to hear from you.

STATEMENT OF MORRIS LIVINGSTON, CHIEF OF THE NATIONAL ECONOMICS UNIT, BUREAU OF FOREIGN AND DOMESTIC COMMERCE

The CHAIRMAN. Would you give your name?

Mr. LIVINGSTON. Morris Livingston; Chief of the National Economics Unit, Bureau of Foreign and Domestic Commerce.

Mr. WOLVERTON. What is your position?

Mr. LIVINGSTON. Chief of the National Economics Unit.

The CHAIRMAN. Do you have some particular questions, Mr. Folsom?

Mr. FOLSOM. I would like to have Mr. Livingston's statement on the question of deferred demand.

Mr. LIVINGSTON. Going back to Congressman Reese's question, we have done what we could to measure deferred demand. Let me use the automobile industry by way of illustration. There were about 27,000,000 cars on the road at the time of the attack on Pearl Harbor. Due to normal wear and tear, that has now been reduced to about 23,000,000 cars. By the end of this year it will be nearer 22,000,000. If there had been the normal mortality, it would be under 20,000,000 cars by the end of this year. In other words, there are cars on the road that normally would have been scrapped and replaced by new cars, if it had been possible to buy them.

Now, just how large that deferred demand becomes, of course, depends upon how long the war lasts and how long it will take to get back into automobile production again. It is obvious that it will take several years of very high production to take care of the normal replacement in the first post-war years and build up the inventory of cars on the road back to where it was in 1941.

If we succeed in maintaining a high income commensurate with full employment after the war, the demand for cars on the road would be considerably above 27,000,000, in which case you would have that accumulation to make up, as well.

In other fields, the actual measurement of deferred demand becomes much more difficult, and the figures much more questionable. In any event, deferred demand, in the sense of replacement of goods which have worn out during the war, will fill only a small part of the gap between our pre-war rate of production, our pre-war markets, and our post-war productive capacity.

If we are to use the capacity of our post-war labor force, it will have to be in terms of a very substantial increase in the American standard of living, in terms of the whole gamut of things that people wanted but could not afford before the war and the necessary expansion and modernization of production facilities in order to produce those goods and services.

May I go back to a question that Congressman Voorhis and Congressman Walter raised here with regard to the relationship between savings and the Government deficit?

As Dr. Taylor indicated, the bulk of the savings of individuals or corporations, or the savings of the residents of foreign countries in this country are highly liquid assets—currency, bank deposits, Government bonds. Where those savings are not directly held as liquid assets, they represent claims on financial institutions, increased equities in insurance, for example, and those financial institutions have in turn put that money into currency, bank deposits, or Government bonds.

Those increases in non-Government holdings of currency, bank deposits, and Government bonds are directly the result, as Congressman Voorhis indicated, of Government deficit financing. In fact, as was indicated in one of the tables that have been presented for the record here, we start off with a budget deficit and, with certain adjustments to allow for tax accruals and for purchases of existing assets which do not add to the income of individuals. We can derive the accumulated savings over this 3-year period.

We can also derive those savings by relating the estimates of national income to the estimates of expenditures, and the difference is the savings. Or you can do as the Securities and Exchange Commission has done, add up the accumulations in various savings institutions, in Government bonds, and so on, and arrive by the three means at approximately the same figure.

Now, by the same token it is obvious that taking all non-Government units together, corporations and individuals in the aggregate they can only reduce their savings after the war to the extent that the Government deficit is retired.

To answer your question, Mr. Chairman, as to how much of these savings will be spent, I think it is fairly safe to say that, on balance, individuals will not spend their wartime accumulations. Certain individuals will spend their savings, while others are accumulating additional savings. Certain individuals will spend out of wartime accumulations for goods and services at the same time that they are adding to their savings in the forms of insurance premiums, and so on, but on balance all individuals as a group will probably continue to add to their savings during that period.

The significance of wartime savings is that these individuals may add less to their accumulations during this post-war period, and therefore make the problem of investing those accumulations less difficult than it would otherwise be.

Mr. VOORHIS. You mean by that that it will make it less difficult than it would be if the war should continue indefinitely?

Mr. LIVINGSTON. I mean it makes it less difficult than it would be under exactly the same circumstances if those savings had not been accumulated.

Mr. VOORHIS. I do not follow you at all. Do you think it would be more difficult to invest new savings to the extent that you have a tremendous backlog of savings?

Mr. LIVINGSTON. The backlog, you see, has not been invested in private enterprise. The backlog has been blown up.

Mr. VOORHIS. You mean investing in new savings will be easier because of the fact that existing savings have not been invested?

Mr. LIVINGSTON. What I am saying is that the volume of savings which will have to be invested will be less than it would otherwise be under those same circumstances, because the individuals have already accumulated this backlog against some future rainy day.

Mr. VOORHIS. But is not this true, that it will be less difficult because so much of it has gone into Government securities?

Mr. LIVINGSTON. I am sorry, I do not follow you.

Mr. VOORHIS. I do not follow you.

Mr. LIVINGSTON. The only point I am making is, I recognize the problem that you raised, that if you are going to have high-level production after the war, then at that level the expenditures must balance with whatever consumers decide not to spend, in other words, to save. Producers must invest or Government must spend the difference.

Mr. VOORHIS. I do not believe it does any good if producers invest, because I do not believe you can pile up producer investments and have them pay even a half a percent per year unless there is a corresponding increase of consumer demand.

Mr. LIVINGSTON. That goes along with it, if you have your high-level production you have an enormous increase in consumer demand, which would require producer investments.

Mr. VOORHIS. All right.

Mr. LIVINGSTON. And I say that that problem becomes less, since consumers under those circumstances would want to save less than they would want to save if they did not have this backlog of wartime accumulations as a protection against some future rainy day.

Mr. VOORHIS. You mean they will be more likely to spend?

Mr. LIVINGSTON. They will be more likely to spend on current consumption because they have this accumulation of savings.

Mr. VOORHIS. And that was the point you were making before?

Mr. LIVINGSTON. Yes.

Mr. VOORHIS. I see.

Mr. LIVINGSTON. Now, that is only one factor affecting consumer expenditures.

Mr. WALTER. Is it not possible that before there is opportunity to accumulate more savings, the existing savings will have been spent for the bare necessities of life?

Mr. LIVINGSTON. That is the point I was trying to get across here, that if producers and consumers as a group try to spend any substantial part of their wartime savings during these post-war years, and if there is not at the same time an equivalent Government surplus, then consumers, producers, and Government would be trying at that moment to buy more goods than are being produced.

Taking the total dollar value of all goods and services produced in this country in any period, every dollar of that output is paid out to one of three groups. It is paid out in wages, dividends, and other income payments to individuals, or to Government in taxes, or it is retained by business as depreciation, other reserves, and undistributed profits. No dollars get lost or are added in that process. They go to one of those three groups.

Mr. VOORHIS. Some of them get put in cold storage.

Mr. LIVINGSTON. The basic idea in maintaining high production is to insure that those dollars do not go into cold storage, that they are

spent. Any one of those three groups can have very substantial savings, provided one of the others spends more than its income.

Answering your question, Mr. Walter, the consumer could conceivably spend more than his income during that period, but he could only do so to the extent that either the producers or Government spend less than their income.

Since the producer also has an enormous accumulation of liquid assets, ostensibly for expenditure during this post-war period, and since to reach a high level of production after the war will require very substantial investments in capital goods, admittedly, perhaps, not for 10 or 20 years, but for 2, 3, or 4 years, unless you can see a very substantial Government surplus during those same years, it will not be possible for the consumer to spend much more than his current income. The chances are pretty good he will spend less than his current income, but that this unspent income will be smaller than it would otherwise be at a high level of production. Have I made myself clear?

Mr. LYNCH. Not to me. Let me ask you this question: You have accumulated savings on the part of the individuals. Now, going back to Mr. Walter's question, in the days immediately following the cessation of hostilities, and before reconversion and before the manufacturing plants can get into the high production of which you speak, what will be the situation with respect to those people who have to use their accumulated savings for the bare necessities of life, as put forth before by Mr. Walter?

Mr. LIVINGSTON. I think the confusion arises here because during the transition period you are going to have very strong deflationary factors working at the same time you have very strong inflationary factors.

As one of you indicated a moment ago, the consumer cannot buy automobiles that have not yet been produced, and to the extent he tries to buy automobiles that have not yet been produced, there can be a very strong inflationary influence going on in that segment of the economy.

At the same time the automobile worker who has not been put back to work will be in the position of having to use his past savings just to get along. But if you take the economy as a whole, producers and consumers cannot spend more than their current income, except as there is a Government surplus.

The total dollar value of all the goods produced is paid out to one of these three groups: producers, consumers, and Government. The funds placed at their disposal out of current income are equal to the value of all the goods produced. Now, obviously, if the three groups taken together try to utilize past savings in the sense we have defined them here, to augment current income, the three groups are trying to buy more goods than are being produced at that time.

Mr. WORLEY. Have we not done that on the installment buying? Would you say that people buy more than their income?

Mr. LIVINGSTON. Installment buying simply reduces the net current savings of consumers. The installment buying is an offset to their accumulations in the form of paying off mortgages, adding to life insurance, bank deposits, and other savings.

Mr. WORLEY. Which one of the three segments would that fall in?

Mr. LIVINGSTON. The consumer—the consumer in that case. The installment buying is a negative savings item, but consumers, on balance, were saving money.

Mr. VOORHIS. When was that?

Mr. LIVINGSTON. Right straight through. I do not believe you have had a year in which the consumer was not saving some money. It got to be awfully small at the bottom of the depression, but it never was a negative item.

Mr. VOORHIS. And in 1920 it was very, very substantial.

Mr. LIVINGSTON. You can get at the same conclusion in another way. In the various consumer surveys that have been made in an attempt to estimate deferred demand, where the question has been asked: "Do you expect to buy these things out of wartime savings, or out of current income, or do you expect to buy them on the installment plan," the fraction who expect to use their wartime savings to buy these things is typically quite small.

The consumer by his own reasoning has arrived at the same conclusion that I arrived at by a theoretical process. War-time savings are simply a catalyst influencing how the consumer will spend his current income after the war. To that extent he will be freer than he would otherwise be in his expenditures.

Mr. VOORHIS. Is it not true that the only way in which the wartime savings can ever be of real worth to the people who made those savings, is by substantially increasing production over a long period of time? Let me amplify it by saying this, that otherwise they are going to be attempting to make good those savings out of the purchase of currently produced goods and services against which there will be currently distributed income?

Mr. LIVINGSTON. I think that is a fair statement.

The CHAIRMAN. Anything further, Mr. Folsom?

Mr. FOLSOM. I would like to have Mr. Livingston indicate to the committee briefly what he estimates the increased employment over 1940 would have to be if we are going to reach this high level of production employment, and also what he estimates the increase in the output of goods and services would have to be in the post-war years. Just summarize your study of Markets After the War very briefly.

Mr. LIVINGSTON. In any appraisal of post-war problems and possibilities, one fact that cannot be overlooked is that our country is still growing. For example, about 6,000,000 more people were either employed or actively seeking employment in 1940 than in 1929.

Mr. VOORHIS. How many people were unemployed in 1940?

Mr. LIVINGSTON. About eight millions.

Mr. WALTERS. Were they all unemployables?

Mr. LIVINGSTON. By definition those are persons able, willing to work, and actually seeking employment.

Mr. VOORHIS. In other words, while 6 millions more were employed in 1940 than in 1929, there were still 9 millions unemployed?

Mr. LIVINGSTON. No; I said the 6 millions was the increase in all those either working or seeking employment, but almost nine millions were unemployed.

There is also an increase in productivity, whereby, even with the shorter hours, the net output per person in 1940 was about 25 percent greater than in 1929.

Mr. VOORHIS. How are you going to have full employment unless you get consumer purchasing power that is substantially greater than anything we ever thought of in peacetime?

Mr. LIVINGSTON. That is what I am coming to. Carrying that into the post-war period, take, for example, the year 1947. A capacity output with unemployment reduced to a practical minimum would be some 40 or 50 percent above our actual output in 1940, or some 70 to 80 percent above the 1935-39 average. And obviously, as I indicated earlier, you will only get that sort of an increase with a corresponding increase in the American standard of living, and a corresponding increase in consumer income. Does that answer your question?

The CHAIRMAN. Does that answer your question, Mr. Voorhis?

Mr. VOORHIS. Well, more or less. I would question whether 40 percent was enough increase over 1940—40-percent increase in output, I mean.

Mr. LIVINGSTON. Let me qualify that. That assumes a return to 40 hours of work.

Mr. VOORHIS. Yes.

Mr. LIVINGSTON. And it does not allow for elimination of a certain amount of what might be called hidden unemployment. In other words, it does not allow for the possible elimination of subsistence farming, and so on. If you want to build up a Utopia of that sort, you could get a substantially higher figure.

Mr. VOORHIS. In other words, working not on the plane we are now, but working on the peacetime plane of hours and industry?

Mr. LIVINGSTON. Yes.

Mr. VOORHIS. Then you think a 40-percent increase in gross national production over what we had in 1940 would make possible full employment?

Mr. LIVINGSTON. That is in 1940 hours. That does not allow for price increases.

Mr. VOORHIS. Yes. We have 26 percent difference there.

Mr. LIVINGSTON. You have to add that on top.

The CHAIRMAN. Mr. Welch.

Mr. WELCH. How many employable men were unemployed in this country before the war?

Mr. LIVINGSTON. In 1940 it was about 8,000,000.

Mr. WELCH. How many?

Mr. LIVINGSTON. About 8,000,000 in 1940.

The CHAIRMAN. Anything further of the witness? Mr. Folsom, do you have anything further?

Mr. FOLSOM. No; I think that is all.

The CHAIRMAN. The House is in session. We are going to have to leave.

Mr. FOLSOM. Mr. Williams is supposed to be here. He is on his way over from the Senate committee. I told him we probably would not have any time for him. He might just file a statement when he comes over.

The CHAIRMAN. Without objection, Mr. Williams, who was denied the opportunity to appear before the committee, will be permitted to file his statement.

(The statement referred to follows the testimony of this session, and starts on p. 430.)

Mr. Worley, of the committee, has a resolution pertaining to the subject under discussion, I believe.

Mr. WORLEY. That is right.

The CHAIRMAN. That he desires to incorporate in the record. Without objection, that will be ordered done.

Mr. WORLEY. I should like to tell the members of the committee what the resolution is.

The CHAIRMAN. Very well, Mr. Worley.

Mr. WORLEY. This resolution was adopted by the Texas Democratic State convention.

The CHAIRMAN. Which convention?

Mr. WORLEY. The regular convention. I think it has a refreshing thought. I should like to read the resolution and then put the rest of it in the record [reading]:

Whereas no greater evil has grown during the past few years than the tendency of the States to surrender rights in return for financial aid and assistance and the tendency on the part of the Federal Government during this period of emergency, under the guise of aiding the war effort to usurp many functions which unquestionably belong to the States; and

Whereas it is the general consensus in this State that all of the functions of the sovereign State of Texas that have been taken over by the Federal Government should be returned to this State as soon as possible in order that the necessary process of decentralization of Federal powers may begin; and

Whereas there is now pending before the Senate Post-war Economic Policy and Planning Committee, of which Senator Walter F. George is chairman, a plan to subsidize State unemployment-compensation agencies which, if enacted into the law, would deprive the State of Texas, under the guise of a Federal subsidy or grant-in-aid, of its right to legislate as to the amount and duration of unemployment-compensation benefits and the conditions under which a person in the State of Texas would be entitled to receive them; and

Whereas the State of Texas has not asked assistance from the Federal Government in this matter because it is able to make payments to its own justifiably unemployed through its present system of unemployment insurance, and the Texas unemployment-compensation trust fund now has sufficient reserves to more than pay the prescribed maximum weekly benefit amount for the maximum duration to 500,000 unemployed persons and still have money left in the trust fund; and

Whereas by reason of the fact that national legislation must of necessity be of uniform application and cannot make allowance for varying local conditions, we believe that the Legislature of the State of Texas is in a better position to provide an adequate system of unemployment insurance for this particular State than is the Federal Congress: Now, therefore, be it

Resolved by the Texas State Democratic convention in session duly assembled at Austin on May 23, 1944. That we oppose any and all Federal legislation seeking to take over any functions of the States, and particularly that we oppose any attempt at federalization of our State unemployment-compensation system either directly or indirectly, through subsidy or otherwise, and we direct the secretary of this convention to send copies of this resolution to each Member of Congress from Texas.

* * * * *

I, Charles E. Simons, permanent secretary of the State democratic convention held in the city of Austin, on May 23, A. D. 1944, do hereby certify that the foregoing is a true copy of a resolution adopted by said convention.

[Signed] CHARLES E. SIMONS.

Mr. WORLEY. I think that is important in view of the number of questions that have arisen as to whether the States will want to assume their part in post-war operations, including financing.

The CHAIRMAN. I think I have already suggested that without objection the resolution will be incorporated in the record, along with Mr. Worley's remarks.

I might add that so far as the chairman, speaking for himself, is concerned, he is in thorough accord with the resolution adopted by the regular Democratic Convention of the State of Texas.

Mr. WALTER. And we can all hope the time will never arrive when all the States and the political subdivisions thereof will have to come to Washington and on their knees beg the Government to save their people.

The CHAIRMAN. And, if we are going to continue this, I might further add that just so long as the States come to the Federal Government on their knees, or otherwise, seeking further aid, they can expect further regulation.

Mr. VOORHIS. I would like to add that I recognize the possibilities of setting up compensation programs on a State basis. I think it is probably better, so far as it can be done.

The problem of unemployment is no respecter of State lines, and we ought not be deceived into thinking the problem of unemployment will be solved on a State basis, because it cannot be.

The CHAIRMAN. Is there anything further? If not, the committee will stand adjourned, subject to call.

(Thereupon, at 12:15 p. m., the committee adjourned.)

STATEMENT OF CLAUDE A. WILLIAMS, CHAIRMAN AND EXECUTIVE DIRECTOR OF THE TEXAS UNEMPLOYMENT COMPENSATION COMMISSION AND PRESIDENT OF THE INTERSTATE CONFERENCE OF EMPLOYMENT SECURITY AGENCIES

Mr. WILLIAMS. My name is Claude A. Williams. I am chairman and executive director of the Texas Unemployment Compensation Commission. I am also president of the Interstate Conference of Employment Security Agencies, an organization composed of State employment security administrators of the 48 States and 3 Territories.

The statements which I make are not to be construed as representative of the Interstate Conference of Employment Security Agencies, although I am sure my views are shared by a large majority of the States. I have not had an opportunity to clear my remarks with the other State administrators.

I am deeply appreciative of the opportunity to come before you and present a few facts, which I hope will completely eradicate any impressions which you may have concerning the inadequacy of the State unemployment compensation systems to meet the challenge of the post-war period.

Before discussing the allegations of inadequacy, I think it would be well to review the place unemployment compensation was to have in our economy, as conceived by the President's Committee on Economic Security in its report to the President, transmitted to Congress on January 17, 1935. This Committee recommended enactment of legislation to establish our present system of unemployment compensation.

I quote from the report of the Committee on Economic Security:

Unemployment compensation, as we conceive it is a front line of defense for those who are ordinarily steadily employed * * * Any program for economic security that is devised must be more comprehensive than unemployment compensation, which of necessity can be given only for a limited period * * * This should be a contractual right, not dependent on any means test * * *

While unemployment insurance has not proven a panacea for unemployment, it has in all countries provided a self-respecting method for support far superior to relief for a large percentage of the unemployed.

This same Committee recommended that the maximum benefit amount should not exceed \$15 per week. Today there are 26 States and Territories which have laws providing for a maximum in excess of \$15 per week. The President's Committee recommended that the duration of benefits not exceed 16 weeks. There are 19 States whose laws provide in excess of 16 weeks. The President's Committee recommended that the waiting period be 4 weeks. All of the States and Territories provide for a waiting period of less than 4 weeks, 18 States only 1 week. The Committee recommended that coverage be extended to employers who had in their employ 8 or more individuals, and this was incorporated in the Federal act. There are 26 States and Territories whose laws provide for coverage of an employer who has less than 8 individuals in his employ.

There are many other respects in which the State unemployment compensation laws have been improved over the original model drafted by the President's Committee. These changes in the State law have been brought about by the States on their own initiative when the necessity for them became apparent. Those States which have not liberalized their law over the original suggestions of the President's Committee, will no doubt do so whenever the necessity arises. There is room for some improvement, of course, and the States are not unmindful of that fact.

In the testimony given before this Committee, it has been charged that the State unemployment compensation systems were inadequate because (1) the funds are inadequate; (2) the benefit amount is too low; (3) the duration of benefits is too short; (4) many claimants exhaust their benefit rights before being reemployed; (5) thousands of workers will lose their benefits because they have migrated from one State to another; (6) penalties are too severe.

Let me discuss the first accusation, that our funds will not stand the post-war drain. Let me assure you that the State unemployment compensation systems are in sound financial condition.

Repeatedly, members of the Social Security Board, and other persons who are desirous of abolishing State unemployment compensation systems and establishing a Federal system, have shouted from the housetops that the 51 different systems would not be able to stand the financial strain incident to reconversion from war to peacetime economy, and that many of the States would go broke.

Repeatedly we State administrators have asked those people to name one single State that would go broke, and repeatedly they have refused to name one. Only a few weeks ago, on behalf of the executive committee of the Interstate Conference of Employment Security Agencies, I asked Mr. Arthur Altmeyer, Chairman of the Social Security Board, to name specifically one State that would go broke. Mr. Altmeyer replied that he could not name a State that would go broke, but that he knew that a number of States would go broke just as he knew that a number of people would be killed while crossing the streets of America. He stated that he could no more name the States that would go broke than he could the individuals who would be run over by automobiles.

I say to you that if he has no firmer foundations than that, then he should button up his lip and say nothing more about the solvency of the State unemployment compensation system.

The State agencies are not unmindful of their responsibility to keep their houses in order, and we have made individual studies of the possible drains on our State funds. We have asked the Bureau to work out ways and means of trying to test in advance whether or not we would be able to stand the drain anticipated as a result of widespread unemployment due to the reconversion from war to peacetime industry. The assistance we have gotten from them has been of little value.

On the other hand, the Interstate Conference of Employment Security Agencies established a committee on post-war solvency and has caused to be conducted a survey by every State in the Union to see whether or not they could stand the strain.

I am happy to report to you that, as a result of these studies, not one single State is fearful of its ability to stand the drain we anticipate, and I might add that we anticipate an unprecedented drain.

For instance, in the State of Texas, we have sufficient money in our trust fund to pay 500,000 unemployed persons—one-third of the number of workers covered under our law—the maximum amount for the maximum duration under our law, and still have money left.

Almost every other State in the Union is in equally good or better condition than Texas. If the unemployed in the Nation reaches the rate of one-third of the gainfully employed, or 20,000,000 persons, then I say to you that unemployment compensation, no matter how liberal, will not keep this country from going to hell. If unemployment reaches such proportions as that, our money, our bonds, our Government will go to the four winds.

I have said that we have sufficient funds to meet our obligations under our present State law. I now say to you that the amount and duration of benefits that we have obligated ourselves to pay are adequate.

I shall not bother you with a detailed analysis of the statistics, which were presented to you by others, but I shall content myself with the statement that the formulas from which the benefit amount and duration are derived are fair and just, and if the result is low benefit payments for a short duration of time, it is not the fault of the State unemployment compensation systems but it is a direct result of the economy of the State and Nation. Not one single formula under State law pays less than 50 percent of the wages earned by a person making \$30 a week or less. In the case of unemployment compensation claimants whose checks amount to \$5 or \$6 a week for unemployment benefits, the weekly amount exceeds 50 percent of his average weekly earnings. In most instances it runs from 60 to 65 percent of his average weekly earnings.

For example: A worked during the past year and earned the following wages:

First quarter.....	\$97. 76
Second quarter.....	104. 00
Third quarter.....	102. 01
Fourth quarter.....	83. 06
Total.....	<u>386. 83</u>

\$386.83 ÷ 52	\$7.45
Average weekly wage	7.45

A became unemployed. Under our law he was entitled to draw \$5 a week unemployment compensation for 16 weeks; \$5 a week is 63 percent of his weekly wage while gainfully employed. He draws the \$5 a week for 16 weeks.

B worked steadily during the past year for the following wages:

First quarter	\$119.85
Second quarter	120.06
Third quarter	179.67
Fourth quarter	158.82

Total	578.40
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\$578.40 ÷ 52	11.10
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Average weekly wage	11.10
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B was entitled to draw \$7 a week for 16 weeks; \$7 is again 63 percent of B's average weekly wage earned while employed.

C worked steadily for the past year for the following wages:

First quarter	\$400.00
Second quarter	400.00
Third quarter	400.00
Fourth quarter	400.00

Total	1,600.00
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\$1,600 ÷ 52	30.75
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By working C would make \$15.75 more a week than he could make by remaining idle, so C does not draw any unemployment compensation benefits, because he has the incentive to get out and find his own job without waiting for the employment service to find one for him. The higher a worker's earnings go, the smaller the percentage of the weekly benefit amount to his average weekly earnings while employed.

No one questions the wisdom of such a formula. Unemployment compensation was not designed to write a floor for wages. It was conceived and built around the principle that it should give subsistence to the person who had lost his job through no fault of his own during short periods of unemployment.

I personally believe that \$15 a week even under the inflationary condition we are facing today is sufficient to furnish minimum subsistence for any man in Texas. Other States have a larger maximum benefit amount. There are 4 States that have a \$16 maximum, 15 States that have an \$18 maximum, 9 States that have a \$20 maximum, and 1 State has a \$22 maximum weekly benefit amount.

Generally speaking, the higher the maximum, the more industrial the State and the higher the cost of living and wages. Conversely, the lower the maximum, the lower the living cost and wages in the State.

This is the admirable thing about State unemployment compensation systems. We are able to gear our benefit amounts and our duration to the economic conditions existing in the different sections of the country and at different times.

For instance, the weekly amount since 1938 to the present time shows a steady increase, which is due to higher wages as a result of the war effort. Most of the workers engaged in war production because of the high wages they are receiving will be entitled to draw the maximum amount for the maximum duration under our State unemploy-

ment compensation laws. This will reflect a much higher national average of weekly benefits when we are called upon to pay those workers what they have coming to them. A national uniform system would result in either underpaying the high-wage States or in overpaying the low-wage States. If unemployment compensation is to perform the function for which it was created, benefits must be paid in an amount that will not encourage idleness, but will encourage men to get out and seek employment on their own initiative.

It sounds terrible to say that 24 percent of all checks for unemployment compensation were less than \$10, and in seven States from 10 to 50 percent were for \$5, yet when you study the method of computation in arriving at these amounts, you will find that in not one single instance did any one of those checks amount to less than 50 percent of the unemployment compensation claimant's wages while he was gainfully employed. In most instances the State formula is weighted so that those receiving \$5, \$6, and \$7 checks will draw from 60 to 65 percent of their wages while gainfully employed.

I think it unfair to make a flat statement and leave the impression that \$7 a week is an inadequate sum of money to pay in unemployment compensation benefits, particularly so when there are thousands of gainfully employed people throughout the South who do not earn more than \$7.50 or \$10 a week when they are working.

I do not believe that you men on this committee believe that unemployment compensation benefits should equal or exceed the wages that an unemployment compensation claimant can make while employed. Whenever the wages equal or closely approximate the amount of their earnings while employed the individual remains idle and draws unemployment compensation. That is true not only in the State of Texas, but also in the entire 48 States of this country. We can furnish subsistence up to a certain point on a contractual basis, but beyond that point it ceases to be unemployment compensation and must be regarded as relief or a dole. Please do not consider doing anything that will abolish our State unemployment compensation system and substitute in its place a relief or dole system.

All these statistics on the amount of benefits that have been poured into this record are of little value in determining the adequacy of State unemployment compensation systems. They do not show how the statistics relate to the economic conditions of the individual, the community in which he lives, and the Nation as a whole.

Much has been said in this record as to the duration of benefits. Many unemployment compensation claimants exhaust their benefit rights before finding reemployment. You will find that in the case of those exhausting their benefit rights the weekly benefit amount usually runs between 60 and 65 percent of the wages that would have been earned based upon the wage credits he has. In other words, the closer the benefit amount equals the wage that would have been earned while employed the more likely is the claimant to exhaust his benefits before finding employment.

Unfortunately, during the period (1942) for which statistics were furnished this committee, the United States Employment Service was charged with the responsibility of finding jobs for unemployment compensation claimants. Unfortunately again, the top administration issued instructions to find jobs and place people only in jobs essential to the war effort, and not to find jobs for unemployment compensation

claimants who were not qualified to work in essential war industries. As a result of this, many millions of dollars were paid out in unemployment compensation that should not have been paid out. Many hundreds of thousands of unemployment compensation claimants exhausted benefit rights because the United States Employment Service did not expose them to jobs available in industry.

For proof of the statement I have just made I refer you to a study made by the State unemployment compensation agencies in 1942, which showed that in no State during the operation of the Employment Service by the Federal Government were more than 10 percent of the unemployment compensation claimants exposed to job opportunities.

A later survey resulted from the poor showing of the Employment Service in the one conducted by the States. This survey was made on a cooperative basis with the States, the Social Security Board, and the War Manpower Commission. The federally operated Employment Service, realizing it was on the spot, made every effort to make as good a showing as possible, and even then, only one-third of all claimants were referred to job openings. The portion of claimants referred ranged from about 16 percent in Idaho, Louisiana, and Georgia to 60 percent in Oklahoma, and 66 percent in Montana.

The study further showed that 10 percent of all claimants who had been unemployed for a period of 4 weeks prior to the time the study began had been contacted by the Employment Service. Being unable to offer them a job and penalizing them on their refusal to accept suitable work, these claimants whose benefit amounts ran from 60 to 65 percent of their earning capacity, did not exercise the required initiative to find employment for themselves until they had exhausted their benefit rights.

The higher the benefit amount per week, the less the number who exhaust their benefit right; 60 percent of those with low weekly benefit amounts exhaust their benefits before finding employment, whereas only 30 percent of those with maximum benefit amounts exhaust their benefit rights.¹ In other words, a man earning \$30 a week in gainful employment could draw \$15 a week in unemployment compensation. This kind of man would not wait for the United States Employment Service to find him a job. The \$15 a week he could earn offered sufficient incentive for him to get out and find a job himself. There is nothing strange about this situation. It is just plain old everyday human nature. The incentive to work must be strong enough for a man to try to find employment. Conversely, if the incentive is strong enough or induced by high benefits, then the person remains idle.

In the case of A heretofore referred to—by working he would only have earned \$2.45 more per week than he received for being idle. In the case of B—he would have earned only \$4.10 a week more by working than he could get out of the State by being idle. In the case of C—he could earn \$15.75 more by working than he could by being idle, so he immediately got out and found himself a job. He did not draw any unemployment-compensation benefits.

The proper system of unemployment compensation is one which furnishes a minimum amount of subsistence and at the same time leaves room for initiative and incentive to work. Such a system is now in

¹ Research and Statistics Letter No. 32 of September 18, 1943, and Research and Statistics Letter No. 28 of July 2, 1943, publications of the Bureau of Employment Security.

existence in the 48 States in the Union and three Territories. I quote from the President's Committee on Economic Security:

While the maximum benefits recommended are mere approximations, they very clearly indicate that on a contractual basis, benefits can be paid only in periods, which to many people will seem short. * * * Benefits are small, although considerably higher than relief grants. * * * While unemployment is far from being a complete protection, it is a valuable first line of defense for the largest group in our population, the industrial worker steadily employed. * * * If he does not find work, we recommend that his further period of unemployment should be met by a work benefit, as described in the section of this report dealing with employment assurance. * * * While the maximum benefit periods indicated by the actuarial calculations are short in relation to the unemployment suffered by the people now on relief, it must be remembered that in ordinary industrial periods, the great majority of workers who become unemployed find other work in a much shorter time.

It is obvious that we cannot, upon a contractual basis, provide unlimited duration of benefits. To attempt a program such as this bill calls for would be to depart from the fundamental conceptions of unemployment compensation as known in this country. It would be a payment of a dole or relief money through our existing unemployment-compensation agencies.

There is a very distinct relation between the duration of benefits and the exhaustion of those benefits to the amount of benefit payment.

There is also another factor which enters into it, and that is whether or not there is existing and operating in the country an efficient labor exchange. To illustrate: A person has been steadily employed for a period of a year and has earned during that year \$578.40, which entitled him to a weekly benefit amount of \$7 for 16 weeks, and these figures are the case of B, heretofore referred to. B's average weekly earnings while gainfully employed were \$11.10 per week. His benefit amount was 63 percent of his wages. He exhausted all of his benefit rights. Probably the reasons he exhausted his benefit rights are (1) the weekly benefit amount was so near his earning capacity that he preferred to remain idle and draw unemployment compensation to working; (2) the State unemployment compensation agency did not have a labor exchange, it having been surrendered by us to the Federal Government upon the request of the President for the purpose of aiding the war effort.

The United States Employment Service has never served unemployment-compensation claimants since it became operated by the Federal Government, therefore, no work test was ever applied to this claimant. He was never offered a job opportunity, and because the \$7 a week, low and inadequate though it is in the eyes of some people, was close enough to this individual's wage earning capacity to cause him to remain idle for 16 weeks and not even try to get a job.

This proves to my mind, that if you increase the weekly benefit amounts of the low wage earner, you will encourage idleness, and for that matter, if you increase the weekly benefit amount of those entitled to the maximum under our law to a point too near the wage they can earn in gainful employment, and I say 80 percent as provided for in this bill is much too near, you will encourage idleness in that group.

Our records show that most of the claimants entitled to the maximum benefits under our law, earn considerably more than that, and to my mind this proves conclusively that the reason they do not ex-

haust their benefit rights is because the incentive to work is great enough to cause them to get out and find a job for themselves even though there is no efficiently operated labor exchange.

On many occasions the Social Security Board and others have seen fit to criticize the State unemployment-compensation agencies for the penalties which they have meted out to unemployment-compensation claimants who have refused suitable employment when offered to them or who have been discharged for misconduct, or who have quit their last employment without good cause. Again, I would like to quote to you from the President's Committee on Economic Security:

To serve its purpose, unemployment compensation must be paid only to workers involuntarily unemployed. The employees compensated must be both able and willing to work and must be denied benefits if they refuse to accept other suitable employment.

Now, because we take away the benefit rights of unemployment-compensation claimants who are guilty of misconduct, voluntarily quitting, or refusing to accept a job, they have sought to picture us as Shylocks, demanding a pound of flesh.

In this bill, when a claimant commits any one of the offenses just enumerated, the only penalty that can be assessed is a disqualification for a period of not more than 5 weeks. Now, what will that result in? It simply means that a man today who is tired of working, quits his job without good cause, files a claim for unemployment compensation and has his waiting period extended 5 weeks. At the end of 5 weeks, unless he is offered a job and refuses to accept it, he draws unemployment compensation benefits until such time as he is offered a job. Assume that he is offered one and refuses, then his waiting period is extended 5 weeks, and he comes back again. Even in the greatest period of prosperity, we are probably going to run out of jobs to offer that fellow, and he will have a nice vacation of 2 years under this bill with a minimum compensation of \$20 a week.

I don't think this committee wants to recommend the passage of any such law as that. Certainly such a provision does not encourage people to work. It is like giving a man a tap on the wrist for committing a crime.

The problem of the migrant worker has always been small, and I believe has been largely solved by the interstate benefit payment procedures, reciprocal coverage, and the combining of wage credits. The working out of these three plans demonstrates to my satisfaction that the States can be relied upon to solve their own problems. Not one of these proposals was suggested by the Social Security Board. They originated with the States and were largely worked out by the States, although we did have the cooperation of the Board in approving them.

Early in the program of unemployment compensation the States recognized the necessity of having procedures that would enable a claimant who had been employed in one State who through no fault of his own had lost his job in that State and moved to another State could draw unemployment compensation benefits from the State where he had worked and from which he had moved.

Accordingly, a committee was established by constitutional provision of our Interstate Conference of Employment Security Agencies, consisting of 1 member from each of the 12 social-security regions of the United States. This committee is the interstate benefit payment procedures committee.

This committee met, and worked out the interstate benefit payment procedures, which have been adopted by all the States and which have from time to time been improved since they were first inaugurated. Briefly, the plan provides that any State may be the agent of another State in the taking of a claim against the paying State. Uniform procedures have been established, and proper forms worked out.

The procedures are very detailed and the interest of both the employer and the employee are amply protected. The administration of interstate claims has been very simple and has not presented any serious problems.

We States are aware of the possibility of a large interstate claim load. Anticipating this, a large number of the States began studies several months ago to determine the extent of this possible claim load. The studies reveal the number of workers in a given State with social security numbers from other States. For instance, we have just completed a current study for Texas, which reveals that we have a total of 229,913 workers in the State of Texas who have migrated here from other States during the national emergency.

Recognizing the desirability of determining what State should require the payment of contributions upon the wages of employees who perform services in more than one State, all State unemployment-compensation agencies enacted legislation authorizing the entering into cooperative arrangements to deal with this problem. Through this method, we make it possible for the employee to be covered and draw benefits should he become unemployed and at the same time require the employer to pay contributions upon his wages. In the administration of the reciprocal coverage arrangement, no problems have been encountered.

When the national emergency arrived, and it was apparent that there would be widespread migration of labor from State to State on a voluntary basis and also through encouragement if not compulsion on the part of the Federal Government, the States realized that it might be possible for many employees not to be able to draw unemployment compensation because of their failure to work long enough in any one State.

The Federalists were quick to realize this fact and immediately began ballyhooing from the rooftops for a Federal system. The interstate conference established a committee on the combining of wage credits, which committee has worked out a plan which this year is being put into operation.

At the present time some 20 States have entered into the plan. Others have it under consideration, and I believe before the war is over all States will be participating. The plan provides for the combining of these wage credits to the end that an employee will not lose his right to unemployment-compensation benefits. At the same time the plan will prevent an employee's drawing benefits from more than one State at a time or in sequence.

At this time we cannot say much about administrative difficulties, for it has not been in operation long enough to hazard a guess. Anticipating that there will be some problems in connection with the combining of wage credits, such problems will be referred to our constitutional interstate benefit payment procedures committee.

This committee met on the 25th of April in Chicago, and I expect its report to recommend some needed improvements in connection with

the operation of the plan. I am quite certain that we will have no trouble in making it work, as we have the other plans, and am still more certain that there is no need for the establishment of a Federal system because of the possibility of a few workers losing their right to unemployment compensation because they have worked in more than one State.

I hope this information will enable you to see that the States are aware of all interstate problems and will meet those that arise in the future as we have met those that have arisen in the past. I am sure you have under consideration a provision similar to one in S. 1823.

Section 506 (a) of Senator Kilgore's bill reads:

That such benefits shall be subject to reduction, in accordance with regulations of the Work Administrator, on account of any unemployment or disability compensation paid him by any public agency for the same period of unemployment.

Well, it so happens that every State law has this same provision with respect to our claimants under any Federal compensation act, so it simply means that the claimant could not draw benefits from both systems without an amendment to the law of every State in this Union.

What that provision seeks to do is to have the States pay a certain amount and then have that amount supplemented from the Federal Treasury to bring it up to the uniform amount to be payable throughout the Nation and then when we have paid out all under our law that we are obligated to pay, the Federal Government would pay the full amount for an indefinite period of time.

This provision is just bait for us State administrators to bite on so that our successful organizations can be federalized. The federalists see our nice fund in the Treasury, and they just cannot keep their hands off. It almost hurts the federalizers to see us prosperous, with money in the bank and running an efficient organization the way it was meant to be.

The States can get along without any help from the Federal Government. We have enough money to stand the post-war drain and then some. Our benefits are adequate in duration and amount, in accordance with the economy of our respective States.

I know that some one of you will ask me the question, assuming that your State systems are adequate for those people that are covered, what about some form of unemployment compensation for those that you do not cover? My answer to that question is, first, one of the fields in which there are a large number of industrial workers who have been excluded from unemployment compensation is Government workers—in offices, arsenals, and navy yards. If this Congress believes that a system of unemployment compensation should be established for the Federal employees, then they can amend the Social Security Act and permit Federal workers to be covered under State laws. In other words, if you would permit the States to tax the Federal Government a reasonable sum to pay benefits to those Federal employees whenever, through no fault of their own, they become unemployed, then you would have to amend the Social Security Act.

The Social Security Act provides for an offset credit against the Federal tax for taxes paid the State under an unemployment compensation law to those employers of 8 or more employees. The provision is drafted in such a manner that it does not preclude the

States' extending coverage under their State laws to any other group they desire. For this reason employees in other industrial establishments can now be covered by the States without Federal legislation; 13 States have a coverage of 1 or more; 8 States have a coverage of 4 or more; 2 States have a coverage of 6 or more; 26 States have a coverage of 8 or more.

Perhaps you will ask the question, why don't we compel all States to have a coverage of one or more? My answer to that is that the legislature of the respective States are in a better position to know the needs of their States than is this Congress. I have great faith in our State legislatures, because they are responsible to the people in those States, and I for one, although I recommended it to my legislature in Texas and the measure was defeated, am for lower coverage, I will never say to the Congress of the United States, because my legislature did not agree with me, that the Congress ought to chastise the legislatures and make them agree with me. I believe that when my legislature sees the need of reducing coverage to those not now covered by our law, that they will lower the coverage, and until that is done, I think the people of Texas will resent Congress' meddling in our State affairs.

The proposal to subsidize State U. C. agencies is the same principle that was in the old war displacements bill. Extensive hearings were held on that bill 2 years ago by the House Ways and Means Committee, and it was defeated by a vote of 18 to 7. I shall not burden you with all the arguments before that committee; 22 State unemployment compensation administrators appeared in person. In addition, 12 State governors made personal appearances, and many others sent letters and telegrams stating their positions.

It has been my pleasure to keep in contact with those State administrators and governors, and I know they have not changed their opinion about such a provision. I am quite certain that should this committee recommend the passage of a bill with these provisions in it that the administrators of unemployment compensation and all the governors of the States will be down here before the House Ways and Means Committee to oppose it.

We stated then that such a provision would result in the federalization of our State unemployment compensation agencies. The authors of that bill were willing to write into the law that it was not a bill to federalize the State unemployment compensation systems, as I am sure the authors of this new bill would be willing to do. Even with such assurance from the authors, of the war displacement benefits bill, the Ways and Means Committee said, in effect, that a rose under any other name would smell as sweet. At that time, the same old story was presented that has been presented before this committee. To me, it sounds like the broken record.

Catastrophic unemployment was predicted during the period of conversion from peace to war time industry. Those for the bill said hundreds of thousands of workers would be thrown out of employment, that the States did not have enough money to pay the benefits, that the benefits were too little, that the duration was too short, that those who migrated from one State to another would lose their benefit rights, and strange as it may seem, not one prediction ever came true.

Michigan, which was pictured to be in dire circumstances, was able to pay all the unemployment compensation benefits it was called

upon to pay and still increase its trust fund by several millions of dollars during that period.

The same old prediction has been made before this committee—that we will have catastrophic unemployment in the reconversion from war to peacetime industry in such proportions as to wreck the unemployment compensation systems.

The State systems will have in their trust funds around \$6,000,000,000 by the end of this year. It would take 25,000,000 unemployed persons drawing the maximum of \$15 a week for 16 weeks, or a total of \$240 each to use up the reserve that the States have. I say to you that if we have 25,000,000 unemployed persons for 4 months in this Nation that unemployment compensation, the Treasury of the United States, nor any other thing that can be conceived of would do any good. Our Government would pass out of existence, our bonds would not be worth anything, our money would not be worth anything, and we would probably embark on a period of revolution and bloodshed such as the world has never seen before.

So far as I am able to find out, if this committee recommends the passage of a law as advocated by proponents of emergency legislation to aid State U. C. agencies, and it becomes the law of the land, it will be the first time in the history of the world that a government has undertaken to guarantee every citizen a job or its equivalent in money. The proposal to be incorporated in this bill would put a premium on idleness. It is proposed to pay \$20 a week to agricultural workers plus \$5 a week for each dependent with a maximum of \$35 per week. In the United States, the average cash income of the farm worker for the year 1941 was \$37.45 per month,¹ probably 20 percent higher for 1944—yet to pay him almost that much a week, and in the case of one with dependents will pay him almost \$15 a week more than he earns by working. I ask you, under such a proposal, who is going to work?

There seems to be a large group of people in the United States that are hell-bent on destroying our successful unemployment compensation systems. They lie awake at night trying to figure out some crackpot scheme to tack on to our successful organization and drag it down to the level of many other schemes that have been so thoroughly discredited in the eyes of the American people. Confound it—it makes me mad.

I have repeatedly made the statement that the bill of which Senator Murray is coauthor, usually referred to as the Wagner-Murray-Dingell bill, would not get very far in Congress for the reason that along with these liberal proposals made by his bill, it also levies a tax. When you levy a tax upon the people who are going to be the possible recipients of the Government's generosity, they decide they don't want the luxury.

Perhaps one reason why more opposition has not been voiced to the proposals made before this committee is that it seeks to give away billions of dollars from the Federal Treasury, but it does not levy a tax at the same time to provide the money to give away. You levy a tax of 6 percent on the employers and 6 percent on the employees of this Nation to support a grandiose program such as has been advocated and you would think the wrath of the gods had descended upon you when you begin to get the protests that would be forthcoming.

¹ Agricultural Statistics of 1944, United States Department of Agriculture.

No greater evil has grown during the past few years than the tendency to "look to Washington" for guidance, inspiration, help, and money. The Federal Government is not a producer of wealth even if it does have charge of printing the money. It consumes wealth. Real wealth is produced only when something is created that is useful. We must make certain that our programs of social security do not result in coddling and the loss of personal initiative. It is only through personal initiative that old businesses are expanded and new ones created. I believe our system of free enterprise demands that we continue our modest system of unemployment compensation and that it be left in the hands of the States.

We must not embark upon any system of social security that will destroy the capitalistic system, the profit motive, the right of a man or woman to be rewarded for energy, initiative, daring, the willingness to work, the character to save, and the courage to invest.

POST-WAR ECONOMIC POLICY AND PLANNING

TUESDAY, JUNE 6, 1944

HOUSE OF REPRESENTATIVES,
SPECIAL COMMITTEE ON POST-WAR
ECONOMIC POLICY AND PLANNING,
Washington, D. C.

The special committee met at 10:30 a. m., in room 1304, New House Office Building. Hon. William M. Colmer (chairman) presiding.

Present: Representatives Colmer (chairman), Cooper, Lynch, O'Brien, Reece, Welch, and Wolverton.

The CHAIRMAN. The committee will come to order.

Due to circumstances over which we have no control, the committee is rather limited this morning in its attendance. There are committee meetings and a lot of us, I might say, are interested also in what is happening in the war, rather than the post-war period, this morning. But be that as it may, we are glad to have with us Col. Allan M. Pope, president of the First Boston Corporation, of New York City.

Colonel Pope, we regret that these complications have developed; in addition the House meets at 11 o'clock, of which fact we had no knowledge. We should be glad to hear your statement and will stay with you as long as we can. You may proceed.

Colonel POPE. Thank you.

STATEMENT OF COL. ALLAN M. POPE, PRESIDENT, FIRST BOSTON CORPORATION, NEW YORK CITY

Colonel POPE. Mr. Chairman, I understand, of course, what the situation is. I am not going to attempt to go over all of the matter which I would have otherwise presented to you, but will submit it.

I do want to bring up one thing. I want to go into a little detail. It will take 5 or 10 minutes to do so. This is something that ought to be considered very promptly. I must say it is an extremely serious situation. I will be brief, but I will be a little detailed just to give you the understanding of it.

Under the Maloney Act, the National Association of Securities Dealers, which is, generally speaking, operated and financed by the investment banking industry, was vested with power to discipline its members which include, necessarily, practically all engaged in the securities business. That is a broad general statement of the facts. In 1940 the N. A. S. D. disciplined some of its members by levying fines for infraction of one of its rules of fair practice.

This wasn't post-war planning, but I am getting to it. Irrespective of the details, which are complicated, suffice it to say that it was interpreted by the Attorney General that the fines, through the

N. A. S. D., were levied because the accused dealers failed to live up to a contract made between them and an underwriting syndicate to temporarily maintain a price of a new issue of securities.

I mention this background so you can understand what I am saying now.

The question of whether the levying of such fines should or should not be sustained was raised by the S. E. C., and a hearing was held on April 12, 1944, at which hearing the Attorney General, with the approval of the S. E. C., submitted a brief and made an oral statement contending that a contract to accomplish the temporary maintenance of an agreed public offering price was in violation of provisions of the Sherman Antitrust Act.

I now come to the question of major importance. I am sure that if the Attorney General acts to enforce his expressed opinion, or if the S. E. C. finds that the fines should not have been levied and by doing so casts doubt upon the legality of a contract which provides for a temporary maintenance of an agreed price of a publicly offered issue of securities, then the investment banking industry will not be able to function effectively, will not be able to provide needed funds for industry except in very rare cases, and the entire post-war expansion of industry through long-term loans or equity money or the conversion of industry to peacetime operation through such funds will largely cease unless the Government undertakes to do the financing, and I should say 90 percent cease. That, gentlemen, is a very serious situation. It looks as though I was talking primarily for the benefit of the investment-banking industry.

To let you know it doesn't take much to stop it; in 1934, the act stopped all financing, the Securities Act which was passed at that time, in spite of the fact the investment bankers said it would stop all financing. There was no financing done for a year. Congress modified the act. Then industry went on, financed by private means. So it doesn't take much to stop it; and I prophesied then it would stop it; and I prophesy now, again, that it will—not on just pure guesswork—but on facts.

The statements I make are not exaggerated, in my opinion, nor are they made to sound dramatic. The facts on which my opinion is based are complicated. I will simplify them as best I can.

I am not proceeding to argue for any specific exemptions from the Sherman Antitrust Act. I am legally advised that many decisions have been rendered holding temporary price restrictions legal when temporary in nature and incidental and when the persons selling are not in control of the market.

When a new issue of securities is to be offered to the public and to other dealers by a group of underwriters, unless it is an exempted issue, exempt from registration, it must be registered with the S. E. C. Under schedule A of the Securities Act the registration statement of the issue must have entered upon it the agreed public offering price.

In the act, it requires the agreed public offering price of the issue be entered into the registration statement.

Parenthetically, I might ask if Congress thought when it wrote the act that a price could ever be called an agreed price, which it possibly asked for, if the agreement did not last for any period of time whatever. The Attorney General says it cannot be agreed to maintain a

price for any period of time. An agreement which can be voided in the next breath is no agreement. That is common sense.

Therefore, the ruling of the Attorney General, if it goes through, certainly his oral statement, means that the Securities Act is illegal and the requirements of the Securities Act are illegal.

Now, why is this price agreement so important? Briefly, this is the procedure that makes it an essential element in investment banking, and is the reason that for 50 years or more it has been necessary to practice that principle, to maintain which principle the S. E. C. has issued numerous regulations governing the procedure of bankers when maintaining an agreed offering price. So all of that, if the Attorney General's decision is correct, is out.

When a new issue of securities is offered to the public, generally speaking, a group of bankers form an underwriting syndicate to buy the securities from the issuer and they agree with the issuer to offer the security to the public at an agreed price and this price is included in the registration statement filed with the S. E. C. They have got to know that price. The man who issues the securities, sells it to the underwriter, has got to know what the underwriter is going to make on it. The only way to tell what you are going to make is to know the price you are going to pay for the securities and know the price they are going to offer. The issuer must know that price at which securities are to be offered or he cannot determine the reasonableness of the underwriters' gross profit or "spread." Usually several hundred other dealers located throughout the country—called a selling group, of which the underwriters very generally are members—buy for resale from the underwriters at a concession below the initial public offering price and this group likewise agrees to the temporary maintenance of the public offering price. They buy at resale, buy at a concession below the initial public offering, which the public will be allowed to pay. That is their profit.

The present practice, in general, is for the members of this syndicate or selling group to agree to maintain the initial offering price for a short period of time, often not longer than 10 or 20 days—almost never longer than a maximum of 30 days.

Why do they say 10, or 20, or 30 days? Because an issue of securities is sold, almost completely, and it is almost a rule that they are not delivered for 10, sometimes 20, sometimes 30 days—sometimes as long as 60 days.

You can have a contract with people that they will buy the securities when issued—when delivered. And it is an amazing thing that a great many people, where they will say, "We will buy that security on the date of delivery," if on that date the security is selling for lower than the price which they agreed to pay, which is the offered price, you will be surprised to know how many won't take them up. You have got to have protection.

Now, supposing on Monday morning you start in on a new issue of securities. On Tuesday, we will say, part of the country would get the data. Data means prospectus, which they have to have before they can offer. Some parts of the country, if you offer on Monday morning, won't get the prospectus until Wednesday. And during wartime that would be Thursday or Friday before they can even offer them.

If you do not have a fixed price, that is to say, an agreed offering price for a short period of time, they find on waking up that the agreed offering price no longer exists, because there is no provision for maintaining a price for any length of time. If they already own the securities, these fellows in California, on Tuesday or Wednesday morning, if they got the securities, they wake up and find the security is worthless, and they have paid for it, possibly.

All of this time, during all these price fluctuations, the security may well be intrinsically worth the originally agreed initial offering price or more, and hundreds may have been ready to pay that price or more, but because of the mechanics of selling which has permitted and encouraged a drop in the market, they hold off and wait to see how low the price will go. It would seem that some would step in and buy if they think the price is cheap. Eventually they will, but the public rarely buys in a falling market. A dealer's business is to buy and sell—not hold. Many dealers, believing they may have to hold for too long a time before they can sell at a profit, sell at a loss.

Now, gentlemen, when the Attorney General publicized a brief which he wished to submit later at the Securities and Exchange hearing, we had an issue of securities, \$10,000,000 of securities—the Phillips Petroleum issue. That is an issue double A, meaning a high, very high rating. Triple A is the highest. The bank can buy at the BAA rating. When the Attorney General's opinion was publicized we called in the lawyers right away. We were going to issue within 12 hours or 24 hours. We said, What are we going to do? Here is the Attorney General threatening that this is illegal. We hadn't much time to discuss the matter. We had an issue which was very high grade. It was May, a market very receptive. That issue was very popular. We decided because we didn't have time to think it over, what the consequence might be, we decided to issue without a price-maintenance clause. We did; and the issue went within a few hours, out, because everybody wanted that particular issue. It was a high-grade issue and a negotiated deal.

Within 24 hours after that, another issue came out. This will show what will happen. It shows why you can't do it without a price-maintenance clause. The Northern States Power issue was offered. And they tried the same thing. These are the only two issues to my knowledge that have been tried without a price-maintenance clause in 50 years. This next issue was not a high-grade issue compared to Phillips Petroleum. It was AA. The market had turned not too receptive. The issue was offered at 101. That was the public offered price. Because there was no price maintenance, within 5 minutes after the public offering price of 101 was announced, and the morning opened, and the deal was offered, there were within 20 minutes, three separate prices.

Now, when an issue is offered at 101, what happens? Somebody who thinks he knows that price maintenance is not going to be maintained, says to someone, "I will buy that issue at par and a half"—a half point below. There is no necessity for maintaining a price by any agreement. So some dealer said, "All right. I will sell you that." Because he may be able to make a quarter of 1 percent, or something and get out whole.

The minute that price, that deal is made, I don't care how big it is, for par and a half, that is the price of the issue throughout the United States, on that minute. No one, no reputable dealer, will ever offer above that price to anybody, unless they know that there are no more bonds offered at that price, no more securities.

That Northern States Power deal started in with three prices. It dropped from 101 down to par and a quarter. Some of the scalpers came in, took most of it at par and a quarter and cleaned it up. Three prices within the 24 hours, or 48 hours, I guess, total.

Now, when you are in the business of investment banking, say what you want, you are not in it to lose. You are in it for profit and for gain. There is no way under heaven for an investment banker to know whether he is going to make or lose. He knows the chances for are far in excess of the chances against it that he lose, without price maintenance.

There is, in the opinion of those in the investment-banking field, I know, because I have talked to a great many of them, not because I was coming here, but there isn't an investment banker that would take the risk of buying five, ten, up to one hundred million dollars' worth of securities and have no knowledge whatsoever as to whether he was going to have the price which the public will pay, or whether he is going to have a price which is mechanically operated as result of no opportunity to maintain for a temporary period of time, this fixed price.

I don't know why the Attorney General suddenly comes in after 50 years and determines that this is wrong. The Attorney General's brief is, in the opinion of the lawyers, unsound. In some places it is absolutely absurd. He says what we should do would be to follow the British system, among other things, where they have no maintenance of price.

Now, I can tell you that this is what would happen, in order for us to adopt the British system, where they have no maintenance of price. To duplicate it, we would have, among other things, to set up practically all buying in one place—say New York City. We would have to change the law affecting insurance companies in practically every State in the Union, that were brought about by the Hughes investigation; to repeal the security company bank-affiliation provisions of the Glass-Steagall Act; to repeal the dealer-license provisions of the 1934 act; and to make prevalent in this country the very thing criticized in the English distributing machinery as set forth in the Mac-Millan report, that is, it favors established enterprises in large cities. We would have to change the Securities Act. We would have to change competition for customers. In England, if you have a customer, no one ever takes him from you. He can't. Those changes would have to be made in order to adopt the British system. I say you can't do it. That is in line with the Attorney General's, I think, rather loosely worded brief. That statement, in itself, was absurd.

Mr. WOLVERTON. May I ask whether the English system, the British system you speak of, is statutory or is it agreed custom?

Colonel POPE. Yes; it is statutory to the extent it has to do or it comes under the British Companies Act. That is something like our Securities Act, in that sense it is statutory. When it comes to saying that no customer can be taken from another, that is pure custom.

But if you don't have that, the British system of opening up to everybody without a price restriction, wouldn't work.

The reason why it works in England, is this: You are offered an issue of securities. I am in the securities business in London, among other places. You offer a security to the public there. There is no price restriction. You can offer at any price you want. The buyers are all in London. The buyers are oftentimes and mostly big estates, large investors, and so forth. Their brokers have worked for them for centuries, in some cases, and who never have any competition to maintain their accounts. In almost all cases they have discretion.

So, in the morning, if this comes out, all of these people in the city of London, the agent merely says, "I will take so many for John Smith, so many for Henry Knight, so many for the insurance company," and that ends it. We have nothing comparable to that in this country at all. Occasionally it does not work. Occasionally those people don't want the issue. It is a flop. When it is a flop, that is what they have done in underwriting it, which we can't do under the law. The insurance companies, the big investment trusts, who, if the issue isn't sold to others, are perfectly willing to hold it at their price.

In that case, they back the underwriters, so if the issue isn't sold at all, it goes into the hands of people who are willing to hold it. In this country, it goes into the hands of dealers. A dealer's business is to buy and sell, not hold. They are not investment trusts. They do not underwrite. Insurance companies under the law cannot underwrite in this country.

Mr. WOLVERTON. I regret I didn't hear the beginning of your statement. May I ask how far our present securities laws interfere with the situation as you have expressed it?

Colonel POPE. Our present securities laws are all right, sir. It is because they are all going into the discard, if the Attorney General's opinion is valid. That is what the trouble is. The Securities and Exchange Commission have issued innumerable—that is really the right word—rules for maintenance of price. That would all have to go out, because you cannot maintain a price under the Attorney General's decision.

The Securities Act requires you to report the public offering price. That is all right. That is as it should be. The only way I can find out, and I am not a lawyer, that you can prevent a complete stoppage of private industry, financing the corporations of this country in post-war planning, if the Attorney General's report even indicates, or the further report, or the S. E. C. report, after hearing the Attorney General, and their report hasn't been made yet, but if that casts doubt, grave doubt on the legality of maintenance of price for any period of time at all, there wouldn't be any investment banking industry underwriting, financing the industry of this country. It will be just the same as it was in 1934.

In 1934, the whole year, there was nothing like that, because of the Securities Act, which was amended later.

Mr. WOLVERTON. Are you advocating any change at all?

Colonel POPE. I am advocating one thing. All I think is necessary—I am advised, that is—in schedule A of the Securities Act—that there be written into it, the statement that the filing of an agreed offering price with a limitation, which you can set, 10 or 20 days, what-

ever it may be, is not in contravention of any existing law. You know the phraseology which is in the Maloney Act:

If any provision of this section is in conflict with any provision of any law in the United States, the provisions of this section shall prevail.

MR. WOLVERTON. What is the attitude, if you know, of the Securities and Exchange Commission, with reference to the suggestion you have just made?

Colonel POPE. I don't know the attitude of the Securities Exchange Commission. The Securities Exchange Commission, to fortify themselves, did employ a man who made a study of this. And he made a report at this hearing. I do not know whether the Securities Exchange Commission had anything to do with the Attorney General's attitude on the matter.

We have no knowledge of what the Securities Exchange Commission will find, as their report is not yet issued. All I am saying to you gentlemen is that that is the most serious thing in the investment banking industry, that it has been confronted with since 1934, when it was out of business. And I will assure you I am not just trying to earn a dollar for myself or for anybody else.

My business is too diversified to have us go out of business, if we never did any underwriting. You cannot finance industry by private means, if the Attorney General's decision that you cannot maintain a price goes into effect.

MR. WOLVERTON. What does he base that decision on? Do you have any reference?

Colonel POPE. He bases it on the fact that a security is a commodity. A commodity cannot be restricted as to price.

MR. WOLVERTON. Is it based on the antitrust law?

Colonel POPE. Sherman antitrust law; yes. I have had read to me innumerable decisions under the Antitrust Act, which cover this section, which are to the effect that, if the restrictions—price limitations—are purely incidental, if they are temporary in nature, and not for the benefit of someone who controls the market, then a temporary price maintenance has been authorized in innumerable decisions.

MR. WOLVERTON. Is there any litigation pending that would result in a decision by the Supreme Court on the question?

Colonel POPE. No, sir; nothing.

MR. WOLVERTON. On the Attorney General's brief?

Colonel POPE. No, sir; nothing before the Supreme Court. This hearing only took place the middle of April, submission of the brief by the Attorney General last April.

MR. WOLVERTON. I was at a loss to tell what that was.

Colonel POPE. The Securities and Exchange Commission held a hearing on the question of whether or not some fines should be imposed. This is incidental to that. The question of whether the fines should be imposed, is an erroneous conception, in my opinion. I won't go into the details of that. What the Attorney General said was that the fines were to be imposed because the individuals who were accused did not live up to a contract with an underwriting group to maintain a price of an issue of securities for a period of time. They failed to do it. They went out and broke the price, contrary to agreement. And that brought up the question as to whether the fines should be imposed, because they had broken it, or whether it should not be.

Then the Attorney General came in and said the fines should not be imposed because the agreement, itself, was illegal.

Mr. WOLVERTON. Is this change you suggest, by an addition to the Securities Act, due to failure to meet that situation in the present legislation, or is it due to an unexpected interpretation of the act as it is now?

Colonel POPE. Due to an unexpected interpretation of the act. The act has been in existence since 1934, and it has never been challenged. The practice before the act has been in existence for 50 years and not been challenged. Suddenly it is challenged.

The act is all right. And in many cases I am going to say all through here, the Securities Act is a good act. There are many things in this Public Utility Holding Company Act and Securities Exchange Act—they are good acts. The trouble with the situation is not all the trouble with the S. E. C., as many think. The trouble is that Congress in two of the acts gave a mandate to the Administrator to carry on. Because at that time Congress didn't know how to provide the means of carrying through the provisions that they wished carried through in their act. Now Congress knows how to do that. They didn't know. Nobody knew, perhaps, 10 years ago. And the S. E. C. has been obliged to interpolate, through regulations, which have the effect of law, if they don't have the status of law, in innumerable cases, so numerous that no one can hope to be able to follow them. And that has been the difficulty with those two acts.

But, gentlemen, the question I was specifically asked was this: If the Securities Exchange Act was all right, as far as this point I am bringing up here was concerned? It is the fact that the act doesn't say that it is not in violation of the Sherman Antitrust Act or any law makes it such that you can question it. And it has been questioned. And the mere fact that it is questioned, and that the Attorney General puts the investment banking industry on record that it is probably illegal, you can't make anybody take the risk. You will just be facing an indictment. In fact, I don't know how true it is, but the rumors are very definite that the minute the hearing report is out it is the intention to indict some investment banker for a test case. You can't indict an investment banker any more than you can indict a commercial banker, without injuring credit permanently, guilty or not guilty. Whether it is a test case or not. No one is going to run the risk of indictment, if they can avoid it.

The CHAIRMAN. Do you have anything further?

Mr. LYNCH. Is that the only case, Colonel Pope, where there has been action taken by the Securities and Exchange Commission to levy a fine?

Colonel POPE. Oh, no; it has been done frequently.

Mr. LYNCH. But the question has never been raised?

Colonel POPE. The fine is not levied by the Securities Exchange. It is levied by their stepchild, the N. A. S. D., which is a quasi-governmental body formed under the Maloney Act, passed by Congress a few years ago. But the S. E. C. has jurisdiction over the decisions of this N. A. S. D. It has jurisdiction over those decisions which is bringing those decisions about, the question of the right of the National Association of Securities Dealers to have levied the fine, then the Attorney General steps in and adds a brief saying the fines could not be levied because the contract they were accused of breaking was illegal.

Mr. LYNCH. Who questioned the N. A. S. D., the Securities Exchange?

Colonel POPE. The Securities and Exchange Commission.

I am reminded that some of the dealers questioned it and complained that they should not be accused and fined. And their appeal has brought about the hearing by the S. E. C.

Mr. LYNCH. Let me see if I get it right: First, the N. A. S. D. was the one before whom the complaint was lodged?

Colonel POPE. Yes.

Mr. LYNCH. They, as in previous cases, held or were about to hold that certain people had violated their maintenance agreement and should be subject to fine. Is that correct?

Colonel POPE. Yes. That began 4 years ago. It has been pending until this time.

Mr. LYNCH. Then I presume some dealers objected to the action of the N. A. S. D.?

Colonel POPE. Yes.

Mr. LYNCH. And brought it to the attention of the S. E. C.?

Colonel POPE. Yes.

Mr. LYNCH. Whereupon, hearings were held before the S. E. C.?

Colonel POPE. And they permitted the Attorney General to intervene, also.

Mr. LYNCH. Intervene and render his opinion, is that correct?

Colonel POPE. Yes.

Mr. LYNCH. Now, you stated before that it was your understanding that where there was no benefit to parties who made the maintenance agreement, that it did not come within the purview of the Sherman antitrust law. Isn't there some benefit to the parties to the maintenance agreement in the very fact that one party is guaranteeing that the price should remain definite for a period of time?

Colonel POPE. The reason it does not come in under the Antitrust Act, in the opinion of the four leading corporate lawyers in New York, law firms, is because it has no bearing on the eventual price. It is no restriction of trade. It does not provide a monopoly in any sense at all. It is purely a temporary operation to permit the mechanical distribution of the securities, and with a country as large as the United States, with the mails as they are, plus the fact it is a mechanical device to hold the price until the security, itself, can be delivered, which is not possible at the time of sale—it has to be some days later, after printing, engraving, and so forth, has taken place—therefore, it is purely an incident to correct a mechanical difficulty. It does not provide anybody with a corner on the market, or a monopoly, or restricting anybody from trading. It does not prevent the price from going anywhere it wants to in 10 or 20 days, when they close this issue.

As a matter of fact, it is only the dealers that agree to be restricted in price. If I sell to you, I agree to maintain a price. You can sell at any price you want, right like that. And it assures that everybody has an equal opportunity to purchase. It is for the benefit of the purchasers.

Mr. LYNCH. In other words, what you mean is this: That if there is an issue, say of \$100,000,000, by this maintenance-of-price agreement, that gives everybody who desires to purchase, an opportunity to come in and get their pro rata share of that issue.

Colonel POPE. That is right. At that price.

Mr. LYNCH. At that price?

Colonel POPE. At that price.

Mr. LYNCH. So that you get a wider distribution and eventually, probably, prevent, well, a corner on that.

Colonel POPE. There couldn't be a corner, sir.

Mr. LYNCH. Probably not in that amount, but a smaller issue.

Colonel POPE. Even if it was 5,000,000 or 2,000,000 there could not be a corner for the reason this is only temporary, lasts for 10 days. Everybody has to agree to extend it for 10 more. It never gets suspended, under present practice, not rules, for more than 30 days. This is the practice. If the issue is 5,000,000, or a hundred million, and it goes on for 4 or 5 days, and about half or a quarter of the issue is sold, and no more sales. There is no sense in keeping the syndicate, or that agreement together. The syndicate is closed. A free market.

Now, it is because in the first few days, and sometimes it takes more than 10 days, in order to get this distributed, you see people have got to go in the highways and byways and talk to people out in various parts of this country, and they don't get there. Today it is even worse, because the telephone is restricted. You can't telegraph as much as you could before. You have got to give time to get it to people before the price is jumping all over the map, which is hard on the people who bought at the original offered price. You buy something at par. The next minute you find somebody bought it at par and a half. You know you don't like it. The fellow that bought it at par and a half advertises the fact he bought it at par and a half, and the next bid is par and a quarter. Down it will go purely for mechanical reasons. That is the way it works.

The CHAIRMAN. Pardon me. Had you finished?

Mr. LYNCH. I had finished.

The CHAIRMAN. As I understand, you have no fault with the S. E. C., we will say, as such, as to the law. What you are objecting to is an interpretation of the law by the Attorney General, which you contend is unwarranted. Is that correct?

Colonel POPE. That is correct. On this particular point—

The CHAIRMAN. Now, that being true, isn't the question one for the courts to determine? I mean, after all, if your counsel contends that this is an erroneous construction, isn't it proper for him, for that to be settled in the courts?

Mr. LYNCH. Well, sir, normally I would say so. You gentlemen here are talking of post-war planning. A lot of these corporations have got to get ready now. The minute the Attorney General indicts somebody, which I think he probably will, or the minute he carries on his contention and works to get a case before the Supreme Court, or the minute the Securities Exchange Commission backs up the Attorney General in its report and casts doubt on the legality, there isn't a corporation that is going to get a nickel. And I don't think you can wait until the Supreme Court gets to it.

The CHAIRMAN. I will follow that in just a moment; yes. Of course, I can well understand there are a number of people in this country who have no confidence in the Attorney General. That is a question about whether his action was correct in a certain mail-order-house seizure.

There are some people who don't have confidence in the Supreme Court as presently constituted. I, myself, and this is either on or off the record, I think that maybe they lean a little too far to the left. I have certainly found some disagreement with some of their decisions.

But if the interpretation is wrong, by the Attorney General, of this act, and even if the Court should follow him and wrongly determine the interpretation of the act, what assurance would you have, if Congress were to attempt to correct it now, that the same thing wouldn't happen? What I am trying to say is, after all, haven't you got to give the Court opportunity to pass upon it?

Colonel POPE. Well, sir, I follow you. And I am inclined to say that as a normal procedure, you would be correct. I am trying to find some way so that private capital can find its way into industry now. And in the next year and in the post-war period. I am very skeptical as to whether the Supreme Court is going through the normal channels of legal procedure, that you would be able to get a decision such as to warrant investment bankers continuing to underwrite securities. Certainly I think for the duration of the war they won't be able to. I think it will extend pretty well into post-war. And I think that would be fatal.

The CHAIRMAN. I can understand somewhat of the difficult approach to the question.

Colonel POPE. Is it possible, sir, to have, if the Congress adds to the fact that they have stated already, just a mere phraseology, "this is not in contravention of other acts," what happens then? This is not in violation of other existing acts, not to be construed as being, this price maintenance, inasmuch as it is in the Securities Act.

The CHAIRMAN. I am not sure I follow you.

Colonel POPE. The Securities Act states you have got to file as a matter of record, the public offering price to the public, which you have agreed to. No one, I don't believe, in Congress ever thought that agreed offering price, set down here as the agreed offering price, that 2 minutes later someone says that that is not the agreed offering price, I will get any price. That means no price at all. If there is no period of time which you agree to a price, then there is no agreed price. That is what the Congress wrote. It was wise in doing so, that it would imply a time element. All I say is, and this is what the attorneys tell me, if the Congress added to the statement that they require the agreed offering price to be registered, the fact that this is not in contravention of any existing law, that you would not have the difficulty of a stoppage of underwriting, and you would not have the contention it was in violation of a law which specifically said it was not.

The CHAIRMAN. I think I understand. I think I follow you a little better, possibly.

What you would have the Congress to do is to clarify?

Colonel POPE. Clarify, sir.

The CHAIRMAN. We are very fortunate here in having a member of this committee, a member, also of the Interstate and Foreign Commerce Committee, Mr. Wolverton, who has been very intelligently submitting questions to you here this morning. Do you have anything to say about that, Mr. Wolverton?

Mr. WOLVERTON. It seems to me that the intention of Congress was certainly different from what the Attorney General has ruled.

Colonel POPE. I think so.

Mr. WOLVERTON. The best evidence of that is the fact the Securities Exchange Commission has made rules with reference to this very matter.

Colonel POPE. Innumerable rules.

Mr. WOLVERTON. So it would seem as if the Securities Exchange Commission had also agreed in the interpretation which I think Congress intended should be given to the act?

Colonel POPE. Yes. That I think is certain.

Mr. WOLVERTON. In other words, they have fixed the rules and regulations on the basis that this was a proper thing to do as provided for in the statute?

Colonel POPE. Yes, sir.

Mr. WOLVERTON. Now, the Attorney General comes along and files an opinion that is contrary to what we will say was the intent of Congress, certainly contrary to what was the intent of Congress, as interpreted by the Securities Exchange Commission?

Colonel POPE. That is right, sir.

Mr. WOLVERTON. That has thrown a degree of uncertainty into the situation that would preclude the proper operation of business in this respect?

Colonel POPE. Yes, sir.

If the following changes in paragraph 16 of schedule A of the Securities Act of 1933 is amended, there will be no question but that the original intent of Congress will be continued under the Securities Act. It is important that a possible finding by the Securities and Exchange Commission relative to this matter or that possible further action by the Attorney General does not so confuse the situation that no underwriting of any importance will be done. It is suggested that the Congress take steps at the earliest possible moment to pass an amendment to this one paragraph in order to insure that the intention of Congress be continued without interruption. Section 16 is repeated herewith as it stands with additions which are italicized:

(16) The price at which it is proposed that the securities shall be offered to the public or the method by which such price is computed and any variation therefrom at which any portion of such security is proposed to be offered to any persons or classes of persons, other than the underwriters, naming them or specifying the class, *and any agreement between underwriters or any agreement between the underwriting syndicate and members of the selling group or between the underwriting syndicate and any other persons purchasing from the underwriting syndicate for resale, to maintain the public offering price for any period of time which shall not exceed thirty days from the date of the initial public offering without approval of the Commission.*

A variation in price may be proposed prior to the date of the public offering of the security but the Commission shall immediately be notified of such variation.

If any provision of this section is in conflict with any provision of any law of the United States in force on the date this section takes effect, the provision of this section shall prevail.

I am advised that if section 16 is amended with reasonable promptness as indicated, the danger of a stoppage of underwriting just before we enter the post-war period can be avoided.

The CHAIRMAN. Are there any further questions?

(No response.)

The CHAIRMAN. Do you have anything further?

Colonel POPE. I am submitting this, because I know your time schedule. I am not in agreement with all of the things the Securities and

Exchange Commission have done, but they are embodied in this report, which every member of the committee will be furnished.

Mr. LYNCH. One question.

The CHAIRMAN. May I pursue this further for the record here?

Mr. LYNCH. Yes.

The CHAIRMAN. Do I understand, Colonel, that you desire this complete statement to be incorporated in the record as is?

Colonel POPE. Yes.

The CHAIRMAN. Without objection, it will be so ordered.

(The full, prepared statement of Colonel Pope is inserted in the record on p. 458.)

Mr. LYNCH. Colonel, as I understand your testimony, you are fearful as a result of this opinion of the Attorney General, which is contrary to the long practice of investment, that—

Colonel POPE. Certainly 50 years.

Mr. LYNCH. And is contrary to the apparent rulings of the Securities and Exchange Commission in that heretofore the Securities and Exchange Commission has recognized the necessity of such practice. You are fearful that this ruling will frighten away buyers or purchasers of bond issues, not only purchasers, but those who float the bond issue, unless some legal action be taken which will either validate the issue itself, or else tend toward legal difficulties on the part of those who are floating the issue?

Colonel POPE. I don't think it could invalidate the issue itself, if you carried on the practice in defiance of the brief of the Attorney General, or his general opinion.

And it would not prevent buyers from buying. They wouldn't buy at the offered price. They will try to press it down and buy it low, because the mechanics make it possible for some of them to do it. What it will do is this: This is my opinion. With the exception of the very highest grade securities, triple A securities, which means large corporations with long-established credit, with the exception of those, and with the exception of the possibility it might get down a little bit lower grade, possibly double A, in a very receptive market, no underwriter will have the courage or the nerve to go ahead and underwrite, in other words, float an issue of securities for any industrial corporation.

Mr. LYNCH. If the underwriter didn't float those issues—

Colonel POPE (interposing). The Government will.

Mr. LYNCH. The buyers probably wouldn't be able to buy them.

Colonel POPE. No; the Government will step in. I think that had a good deal to do with the question.

Mr. LYNCH. How will the Government step in?

Colonel POPE. There has to be some way by which the industry is going to get its money.

Mr. LYNCH. Let's see how the Government is going to go into the business of floating loans for private ventures after this war is over?

Colonel POPE. Well, I can't tell you. All I am afraid of is they will do it. I can't see any way by which—I will begin again. I don't believe that the bulk of the industry, bulk of the commerce of this country can get through this without financing of some kind. If you get private banking in it, the only way you can do that is by investment banking. If they are not short-term loans, the banks have no business making them, and they have no business making capital

loans, even though short. I don't know where else there is any money, unless the Government, unless the people don't want money. And I say they have got to have it—small industry, large industry, expanding industry, converting industry—or else you will stop the wheels.

I am reminded if the Attorney General does indict, I am only getting this from hearsay, I may be entirely wrong—

Mr. LYNCH. I hope you are.

Colonel POPE. I do say we will probably be the one indicted, as we are the largest distributor in the country, largest dealer.

Mr. LYNCH. I hope that you might be mistaken, that there will be no indictment, not that I hope you would be indicted.

Colonel POPE. I took your tone to be friendly.

The CHAIRMAN. We all concur in that.

Colonel POPE. Really, gentlemen, I am more concerned over this than I have been anything that has happened in the investment banking industry, since I have been in it. I think it means almost complete stoppage of the flow of private funds into industry, and to commerce.

I was concerned at the time the first draft of the Securities Act was passed, and stopped it then. Fortunately, that was a time in 1934 that people didn't want money. They were not expanding. They went through the year without a nickel being provided from private funds into industry and commerce. I was not so alarmed then. I knew Congress would eventually wake up to the fact that some changes were necessary. They did in a year. They amended the act. This is worse, because I see no stoppage of this unless Congress acts now.

I am reminded of the fact, also, if this indictment takes place, the issuing corporation, that is to say the man that issues the securities, borrows the money, would be indicted as well as the investment banker.

Mr. WOLVERTON. He would be, if they started a conspiracy indictment.

Colonel POPE. Well, I can tell you that we have learned that you cannot talk to too many people at a time on lots of things, because of a charge of conspiracy, whether there is one or not. I am talking only for myself, gentlemen.

Mr. WOLVERTON. I thought for a long time there should be some means provided by which businessmen would know before they took a certain step whether it was contrary to the Attorney General's interpretation of the Sherman Antitrust Act?

Colonel POPE. Yes, sir.

Mr. WOLVERTON. In other words, I don't take it that a businessman wants to do a thing that is known to be wrong. But frequently they can do things which, as you say, by the change of a principle of 50 years standing, they may be unexpectedly faced with an indictment.

Now, in cases where there is such uncertainty as that, it seems to me that there ought to be some provision by which an individual might know before he enters into a transaction of that kind, whether it would or would not have the approval of the Attorney General?

Mr. LYNCH. Do you yield a moment, Mr. Wolverton?

Mr. WOLVERTON. Yes.

Mr. LYNCH. I would like to say I think the policy of getting indictments, of such policy as is going to be, where a course of business has been going on for 50 years or more, and bringing people before the bar and criminal court, is wrong. That the procedure, if there is any question as to the law, that the procedure should be civil, in the first instance, so that an injunction of some kind might be had to restrain them from proceeding. But not to bring either a corporation or an individual with an indictment which, as Colonel Pope says, whether the indictment ever goes to trial, and the defendant found guilty, nevertheless his reputation and his credit is pretty badly damaged by the mere filing of the indictment, which would not be so if the action was brought in civil court, in the first instance.

The CHAIRMAN. Colonel Pope, to what extent are your views shared by others engaged in investment banking?

Colonel POPE. Well, sir. I can only say that as an individual no conspiracy entered into, I would like to make that a matter of record. I am not really facetious, but I have learned—

The CHAIRMAN. As I understand, you are not organized. You don't have a union of your own?

Colonel POPE. No, sir. I have talked to a number of individuals who are the heads of the largest underwriting concerns in the United States. And I have talked to the four leading investment banking counsellors in the country, four leading corporate-lawyer firms. And in answer to your question, I would say that I do not believe there is any law firm who would permit his client to put any price maintenance for any period of time at all, if anybody was indicted, if the Securities and Exchange Commission implies that it is an illegal act, or if the Attorney General pursues his course in some other manner which gives the same impression.

I do not believe any investment banker will fly in the face of his attorneys. I don't say that those four leading corporate lawyers are correct. But I have an idea they are.

The CHAIRMAN. There is an association of investment bankers?

Colonel POPE. Yes, sir.

The CHAIRMAN. Have they come to any conclusion on it?

Colonel POPE. The Investment Bankers Association have not entered this picture, because of the fact that the National Association of Securities Dealers, which is quasi governmental, has entered it, and they have submitted their brief. They have argued it before the Securities and Exchange Commission hearing. It is with that group which practically every dealer is perforce a member in the United States, that group is defending the situation, as far as investment bankers are concerned, not the Investment Bankers Association.

The CHAIRMAN. Are there any further questions?

Mr. REECE. No.

The CHAIRMAN. We are grateful to you. I am sorry to have kept you so long.

Colonel POPE. I am sorry to have taken so long.

The CHAIRMAN. We are very thankful we could stay with you.

The committee stands adjourned until 10:30 tomorrow morning, when Mr. Donald Nelson will appear.

(Whereupon, at 11:45 a. m., an adjournment was taken until June 7, 1944, at 10:30 a. m.)

STATEMENT BY COL. ALLAN M. POPE, NEW YORK CITY

Colonel POPE. The purpose of my being asked to present my views at this hearing is solely to throw what light I can on the subject of post-war planning. I have directed my attention in this statement solely to that end and have avoided any effort to discuss matters merely concerned with my industry—investment banking.

Some of the subjects I am to present are proposed for consideration and are not presented in detail nor are they argued. If I am asked for details or arguments I will gladly provide them on the stand, if my memory for figures and details suffices, or will furnish such details at a later date.

The importance of the investment-banking industry in the post-war era will rest solely on the ability of that industry to furnish needed capital or loans for commerce and industry and for States and municipalities, and to provide a ready market for such securities as may have been issued to the public. I will endeavor to state what is needed by that industry to function efficiently, and what it is able to undertake.

First, let it be recognized that to handle the estimated demand for long-term and equity money for post-war needs, the investment-banking industry is now organized to take care of all the business which it properly can be called upon to handle. There is sufficient capital and a sufficient coverage of the entire country.

Second, the general statement is often heard that the investment-banking industry is hampered and its efficiency is curtailed by the S. E. C. It is my belief that to be accurate it is necessary to say which administration of the S. E. C. is referred to, for administrations have differed greatly. Also, the S. E. C. administration is too often blamed instead of the lack of explicit provisions in the acts which the S. E. C. administers.

Matters concerning the S. E. C. will be taken up in the order of their importance to the subject at hand.

Under the Maloney Act the National Association of Securities Dealers, which is, generally speaking, operated and financed by the investment-banking industry, was vested with power to discipline its members which include, necessarily, practically all engaged in the securities business. That is a broad general statement of the facts. In 1940 the N. A. S. D. disciplined some of its members by levying fines for infraction of one of its rules of fair practice. Irrespective of the details, which are complicated, suffice it to say that it was interpreted by the Attorney General that the fines were levied because the accused dealers failed to live up to a contract made between them and an underwriting syndicate to temporarily maintain a price of a new issue of securities. I mention this background necessarily to bring me to the important point.

The question of whether the levying of such fines should or should not be sustained was raised by the S. E. C. and a hearing was held on April 12, 1944, at which hearing the Attorney General, with the approval of the S. E. C., submitted a brief and made an oral statement contending that a contract to accomplish the temporary maintenance of an agreed public offering price was in violation of provisions of the Sherman Antitrust Act.

I now come to the question of major importance. I am sure that if the Attorney General acts to enforce his expressed opinion or if the S. E. C. finds that the fines should not have been levied any by doing so casts doubt upon the legality of a contract which provides for a temporary maintenance of an agreed price of a publicly offered issue of securities, then the investment-banking industry will not be able to function effectively, will not be able to provide needed funds for industry except in very rare cases, and the entire post-war expansion of industry through long-term loans or equity money or the conversion of industry to peacetime operation through such funds will largely cease unless the Government undertakes to do the financing.

The statements I make are not exaggerated, in my opinion, nor are they made to sound dramatic. The facts on which my opinion is based are complicated. I will simplify them as best I can.

I am not proceeding to argue for any specific exemptions from the Sherman Antitrust Act. I am legally advised that many decisions have been rendered holding temporary price restrictions legal when temporary in nature and incidental and when the persons selling are not in control of the market.

When a new issue of securities is to be offered to the public and to other dealers by a group of underwriters, unless it is an exempted issue it must be registered with the S. E. C. Under schedule A of the Securities Act the registration statement of the issue must have entered upon it the agreed public offering price. Parenthetically I might ask if Congress thought when it wrote the act that a price could ever be called an agreed price, if the agreement did not last for any period of time whatever. The Attorney General says it cannot be agreed to maintain a price for any period of time. An agreement which can be voided in the next breath is no agreement. That is common sense.

Why is this price agreement so important? Is it important in order that bankers can be more certain of making money?

Briefly, this is the procedure that makes it an essential element in investment banking, and is the reason that for 50 years or more it has been necessary to practice that principle, to maintain which principle the S. E. C. has issued numerous regulations governing the procedure of bankers when maintaining an agreed offering price.

When a new issue of securities is offered to the public, generally speaking, a group of bankers form an underwriting syndicate to buy the securities from the issuer and they agree with the issuer to offer the security to the public at an agreed price and this price is included in the registration statement filed with the S. E. C. The issuer must know the price at which securities are to be offered or he cannot determine the reasonableness of the underwriters' gross profit or "spread." Usually several hundred other dealers located throughout the country—called a selling group, of which the underwriters very generally are members—buy for resale from the underwriters at a concession below the initial public offering price and this group likewise agrees to the temporary maintenance of the public offering price. The present practice, in general, is for the members of this syndicate or selling group to agree to maintain the initial offering price for a short period of time, often not longer than 10 or 20 days, almost never longer than a maximum of 30 days. This is the normal period for securities to flow from the issuer to the ultimate investor and the

normal period in which to make delivery and to receive payment. Often in practice the agreement is terminated prior to the 10- to 20-day period.

Supposing there is no possible way by which a price can be temporarily maintained for any period of time. What happens?

The public offering price of all new issues is based on judgment. What the public will pay for a new issue cannot be determined positively in advance of the offering thereof. A new issue without agreement to maintain the offering price is offered, let us say, on Monday. Some parts of the country may not receive sufficient information by mail to permit sales to be made until Tuesday or Wednesday. On Monday, let us say, an institution, knowing the offered price can be broken, offers to buy \$100,000 of the security at the offered price less one-half of 1 percent from a selling group member. The price concession, let us say, to the selling group member is less three-fourths of 1 percent from the public offering price. The dealer, probably not too familiar with the general picture and becoming concerned, seeing an opportunity to make one-fourth of 1 percent in a quick sale, puts the transaction through at the offering price less one-half of 1 percent. The market for that new issue is at the moment the offered price less one-half of 1 percent—not the offered price.

It is the business of every dealer to know his markets. A constant flow of market quotations passes continuously every day from dealer to dealer. This sale I referred to on Monday morning at the agreed offering price less one-half of 1 percent will shortly be known everywhere. It means, as I have said, that the offering price from then on is the original offering price less one-half of 1 percent and no reputable dealer is then going to offer his customer the security above that price unless he knows that no more of the security is available at that price. What usually happens when an offering price breaks is that some, usually small dealers, are forced to sell and are more apt to offer their securities at that lower price or below than to withdraw their offerings and wait and hope for the market to straighten out.

This all takes place on Monday morning. On Tuesday, let us say, parts of the country get the data they need to make their offering of the security to the public. They find the agreed offering price no longer exists. If they already own the security they are in a tough spot. If they are what is called a selling-group member and have not yet bought the security for resale they would be fools to buy because the price at which they can purchase from the owners is still fixed by agreement and the price at which they can sell is dropping and may well go below their purchase price.

All this time during all these price fluctuations the security may well be intrinsically worth the originally agreed initial offering price or more, and hundreds may have been ready to pay that price or more, but because of the mechanics of selling which has permitted and encouraged a drop in the market, they hold off and wait to see how low the price will go. It would seem that some would step in and buy if they think the price is cheap. Eventually they will, but the public rarely buys in a falling market. A dealer's business is to buy and sell—not hold. Many dealers, believing they may have to hold for too long a time before they can sell at a profit, sell at a loss. The result is that this issue of securities is not sold at its fair value; dealers are helplessly at the mercy of a mechanically doctored market;

they find they cannot use judgment as to the price they will pay an issuer for a security because that may have no relation to the price they can obtain. Dealers do not continue to do business that results in losses.

I have not given you an imaginary picture. I have been talking facts. I have been explaining to you why for 50 years an agreement to temporarily maintain a price for securities is necessary for purely mechanical reasons. Within 2 months it has been proven by actual practice that without the temporary maintenance of an agreed offering price no issue can be successfully and fairly distributed unless it is of the very highest grade and offered in a very receptive market. By successfully distributed, I mean really properly placed with ultimate investors, not merely with large financial groups. By highest grade, I mean classed as AAA or AA. Bonds eligible for banks to buy are classed as BAA, which is a rating much lower.

They should start to correct serious mistakes in the acts because the best procedure to guarantee industry its needed capital funds is none too good for a post-war world with its stresses and strains.

I shall now speak in general terms for the sake of brevity. I can be more specific if desired now or later.

First, the Securities Act of 1933, as amended, generally speaking, has been found to be a workable act. Some details need correction before a post-war strain is put upon the investment machinery.

(a) A clause should be inserted which states that the offering price to the public, as now required to be filed, should continue to be required, adding that a reasonable period of temporary maintenance of such price is not to be construed as in violation of existing law.

(b) The prospectus now required to be used with every registered issue should be materially simplified. The presently required prospectus is so long and complicated that it defeats its purpose. It was intended to be read by, and hence safeguard, the general buying public. It just is not read and if it is, it is not understood except by the sophisticated who need far less protection. The "short form" of prospectus, authorized by the S. E. C. for newspaper advertising, more nearly fills the need for real protection to the nonprofessional buyers.

(c) The registration statements can be simplified but not as much as the prospectus. That is not a big job. Some present requirements are unnecessarily detailed and accomplish nothing but irritation.

(d) If Congress wants to help small industry it should not require a registration statement for securities less than \$1,000,000 of par value. Registration is now required if over \$100,000. Let the States police such issues. They have the machinery to do so and I believe will do so. Small industry pays costs all out of proportion to big industry to register issues of such small size. The costs are often prohibitive. Neither the N. A. S. D. nor the S. E. C. are built to police and supervise innumerable small issues of securities even under a million dollars.

(e) Congress should add to the act a clause which defines when a sale can be made without registering it, usually referred to as a private sale, defining the limit in the number and interest of the purchasers and prohibiting the resale without registration unless

within the same limitations as the original purchase without registration.

I recall, I hope correctly, that when the Securities Act of 1933 was first drafted no provision was made for a private sale and at a meeting at which I was present it was, as I recall it, first discussed and some provision was recommended to permit an obviously private transaction to be accomplished between a very few individuals without registration. The regulations issued by the S. E. C. interpreting a private sale now open up the loophole to avoid registration continually larger and larger and now permit a sale, affecting directly or indirectly literally millions of persons, without registration. I seriously doubt that Congress ever intended such an avoidance of registration.

Under present interpretations a professional buyer, whose purchases may well be for the benefit, directly or indirectly, of hundreds or thousands of beneficiaries, can buy securities from an issuer without registering or without agreeing to register the issue and has, with as many as fifty other such professional buyers, purchased an issue of securities without registering. Such buyers, while they cannot purchase for the purpose of resale, can and are permitted to and have later changed their minds and have resold to dealers for redistribution to the public, and although in many instances these securities have eventually been registered they are not required to be.

What I am about to say sounds as though I was arguing to benefit investment bankers who are purchasing securities for resale from an issuer. In such cases registration is always required. Speaking for myself alone, I invite your attention to the fact that my own corporation frequently arranges such private sales and is paid for doing it. Practically every large institution that has purchased unregistered securities through private sale is a customer of my corporation. Every word I utter here may be displeasing to my corporation's customers who have purchased securities privately. Nevertheless, if a thing is wrong in principle I believe it should be corrected.

I believe there should be and I recommend in your post-war planning that consideration of this principle be undertaken, to wit: If a sale is made of a registerable issue to any purchaser of securities or any group thereof in which the purchaser's stockholders, policyholders, or any other group of persons have a direct or indirect interest in such purchases, then the security must be registered and be purchasable only after the waiting period or else it must be publicly declared exempt from registration for all purchasers.

What has this principle to do with post-war planning?

History shows that with increased incentive to do so, the number of persons who can participate in a private sale has been expanded by the S. E. C. In the post-war era the incentive to do this may well increase. Private sales foster a monopoly. It is my belief that a monopoly in the hands of a few over the right to purchase the most attractive of new issues of securities is bad for those within as well as for those without the monopolizing group. I believe that this right to monopolize is not sought now and never has been by the large institutional investors, but when made possible by the S. E. C. cannot be ignored—not for the purpose of monopoly but, curiously enough, for competitive reasons. Congress left the door open, the S. E. C. have, for various reasons, walked into the barn, and I believe they

are now playing with matches and in the post-war era may start a conflagration. The fire can conceivably burn those outside of the enforced monopoly, namely, individual investors, small insurance companies, and other small institutional investors together with the machinery of investment banking. If Congress does not like the looks of this picture the correction is easy.

The Securities Exchange Act of 1934 and the Public Utility Holding Company Act of 1935, both administered by S. E. C., are not good acts in the light of experience as compared with the Securities Act of 1933. The reason for this is that when these two acts became law, the Congress knew what it wanted to accomplish but did not know how to do so; so it inserted within these acts mandates upon the administrator of the acts to issue regulations to accomplish what the Congress wanted accomplished but did not know how to do so. If I may be pardoned a rather bold statement, it is my belief that the often-repeated statement in recent years that the S. E. C. has gone beyond the intent of Congress in its administration of these acts is due largely to the failure of Congress to express its intent—a failure understandable at the time but not understandable now. If the Congress now wishes to see its original concept of the act carried out within its original or present intent, it can do so but it cannot do so without writing into the act what it omitted originally and left to the S. E. C. to supply through regulations. It is my belief that Congress now has a basis of experience sufficient to write an act without asking a commission to act for them.

Regulations by the S. E. C. have followed a pattern over the last 10 years that Congress, more or less suddenly, does not now so readily agree with. Many of these regulations were precipitated because the S. E. C. did not know what the Congress intended.

Many regulations issued by the S. E. C. have been, in my humble opinion, unnecessarily restrictive, annoying, and harassing upon commerce and industry and upon investment banking alike. I seem to recall that Congress once upon a time did not object too strenuously to this. It is my belief that it is too much to ask a commission to reverse itself. These two acts are, in my opinion, the basis of nine-tenths of the trouble with security regulations. I believe the S. E. C. through congressional mandates, has at times been forced into regulatory pioneering that was difficult, possibly distasteful to some of the Commission, and this sometimes resulted in tough going which in some cases is getting tougher all the time. I have personally sympathized with the S. E. C. attitude on many problems, particularly recently, and whereas I have disagreed and do disagree with some of their acts I also recognize that Congress has often placed them on a hot spot and the Commission has endeavored to get off it, landing, sometimes, on a hotter one.

With great respect for the ability of Members of Congress, I nevertheless say that I doubt if many Congressmen have any idea what caused the S. E. C. to require competitive bidding, for example. As practiced under the Public Utility Holding Company Act of 1935, I doubt whether many know that competitive bidding has been fairly proven to be practicable only in a firm or rising market for high-grade securities and relatively small issues. Therefore I wonder if in post-war planning the Congress expects to guarantee a rising market and expects to give any advantage to large corporations with very high

credit over smaller corporations whose credit is good but not quite good enough. I wonder if Congress wants to minimize in post-war planning the chance of selling equities of public utility operating companies now owned by registered holding companies by requiring competitive bidding which Congress never authorized directly. Also does Congress wish to minimize the chance of such other utility companies, not having an established credit, of raising new money for the post-war era on senior securities. I frankly believe the S. E. C. are in a quandary themselves on some of these points. To alleviate the situation as I see it, the S. E. C. has either to abandon competitive bidding in some instances—it is a hard thing to decide who will be favored in such cases—or fall back on the old catch-all, the private sale, which I have referred to before as fastening a monopoly on those who do not want a monopoly.

As to the Securities Exchange Act of 1934 and the Public Utility Holding Company Act of 1935, Congress I believe knows now—and if it does not it can readily find out—that the acts have many good provisions. The acts, however, plus the almost innumerable regulations issued by the administrator under congressional mandate that have the effect if not actually the status of law, are not all sound and do not always represent the present intent of Congress. They presently represent an unworthy effort to properly regulate the banking industry and through them commerce and industry in a post-war era and do not present a comfortable picture to dangle before our eyes as our best effort to insure that commerce and industry and the millions whom they will employ are going to be adequately helped to do their part therein. We know, or should know, and at least we can know right now before this war ends, that there is something wrong—seriously wrong—which will be as wrong or more wrong whatever new problems the post-war world may present. This is a situation which I believe a few weeks' of committee work in Congress can correct and correct before the war ends. Congress should, in my opinion, not add a few phrases to the Securities Exchange Act and the Public Utility Holding Company Act, minor changes as suggested for the Securities Act of 1933, but should fill in, in words of one syllable, what Congress omitted when it wrote the acts, namely, how Congress wants its own desired corrective measures enforced.

While I am on this subject, I should like to submit these thoughts. They did not originate with me but with a number of thoughtful, experienced men.

First, consideration should be given to the fact that the Securities Act of 1933 and the Securities Exchange Act of 1934 have for their main purpose the protection of the investor. The Public Utility Holding Company Act of 1935, as it has operated, has as one of its particular purposes the protection of the investor. The Public Utility Holding Company Act of 1935, as it has operated, has as one of its particular purposes the protection of the issuer, not the buying public. No commission can properly straddle that question. The S. E. C. was ordered to straddle it by Congress. To put the point bluntly, in the opinion of many, including myself, that is wrong as a matter of pure principle of organization.

Second, giving full credit to the S. E. C. for administering some of the most far-reaching acts that Congress has ever passed, covering commerce, industry, and banking as they do, it is doubtful if any

commission can be so constituted as to fairly and properly administer the acts free from the bias that always is inherent in any commission; namely, the desire to grow in size and power.

A commission such as the Interstate Commerce Commission may of necessity be essential because of the technical nature of its business. Some others might well be included in this number. In the case of the S. E. C. it becomes the most powerful police force over commerce, industry, and investment banking. It can grow to stifle all three. It exercises police powers that have obliged it to take the attitude in its regulations that you cannot regulate for the good man, you must regulate for the bad one and if this hurts, stultifies, and hampers the good man it is too bad, but necessarily so. The S. E. C. should not be a commission, if you will pardon an Irish form of statement, for two reasons. First, it does not have to be because of the nature of its work; and, second, its work can be better performed under two departments headed in each case by a Cabinet officer—one, the Department of Commerce, the other the Department of Justice.

Under the Department of Commerce the administrative work required under the acts affecting the trade and commerce of the country can be fitted into the work for which that department was created. Then it is less likely that human nature will force an expansion of powers although it is barely possible. These policies can then better be correlated to the whole than in an ambitious commission standing alone. There the Chief Executive takes, perforce, greater responsibilities for cooperative administration.

Under the Department of Justice should fall the police powers required to be exercised under the acts that fail of adequate enforcement under the S. E. C. or its stepchild, the N. A. S. D. In the Department of Justice they can be handled naturally. The sheriff is the power that is needed to handle the crook—not the law nor the regulations of a commission for which the crook has contempt and under which the fair-minded businessman now squirms to find room to breathe.

In closing I should like to say a word about small business—corporations and firms employing under 500 people.

Ever since I can remember, investment bankers have been berated for not adequately providing such industrial concerns with needed long-term capital funds or equity money. I think, as everyone else does who understands the picture, so far as I know, that it is a very difficult problem. Today I think it is well-nigh hopeless. Congress, I believe, can and should act before the war ends to relieve the hopelessness of it and then try to alleviate the situation beyond which investment banking can be counted on to do for purely economic reasons.

Small enterprises need relatively small amounts in each case. Large investment-banking houses are now geared to handle larger loans to be sold nationally and over large areas. It is not economically sound, and therefore should not be tried, to distribute small loans over wide areas. Small enterprises cannot afford to advertise their credit over wide areas any more than they can afford to advertise their products over wide areas.

The long-term loans of small enterprises and the raising of new equity money are, generally speaking, hazardous as compared with

larger enterprises that issue similar securities. The more hazardous an undertaking, the more important it is to know the management, to rate the moral risk, to know the business intimately. Investment bankers located in the city or town where a small enterprise is located desiring capital or long-term funds can, and frequently do, undertake the financing, counting on the local market for distribution. This was a means of helping small industries until the capital-gains tax well-nigh stopped that help.

It is today almost impossible, in general, to interest even local investors in small enterprises when hope of substantial gain is cut off and the possibility of total or partial loss is always present. They lose if they are wrong and gain next to nothing if they are right. I believe if anyone retains the remotest hope that any help can be derived from investment bankers for small business or new ventures while the capital-gains tax remains in existence, it is time all such hope be abandoned.

It is the cost of marketing small issues of securities that always presents one of the economic stumbling blocks to raising capital funds. Registering an issue of \$100,000 or even \$1,000,000 adds so to the cost that the stumbling block becomes a barricade. I have previously suggested the removal of the present limitation, setting it rather at \$1,000,000 instead of \$100,000. I think it will add to the burden of the States if they want to assure themselves of proper protection for their people against fraud, but I believe the burden will not be intolerable and will, in the end, be profitable.

I believe that investment bankers never can solve the problem completely for small business. They can help if the laws are changed. I have known of several plans to improve the aid that investment bankers can give. One method was to pool the investment in such small enterprises to spread the risk. The risk was spread but the profits were not sufficient to spread—the losses were. The enterprise closed in spite of management led by experienced business executives and bankers. I do not recommend such plans in general.

I believe, in addition to what aid commercial banks can properly give in the way of short-term loans to small business and in addition to what investment bankers can give insofar as it is economically practicable in furnishing long-term loans or equity money, that some assistance may well be considered by our Government. I am not prepared to suggest what that may be.

The supplying of capital funds to commerce and industry is so fundamental and so nearly the foundation of growth and expansion in so many situations, that unless the way is properly prepared for raising such capital, other post-war plans affecting commerce and industry must be generally hampered of fulfillment until this problem is solved.

I appreciate being invited to appear at this hearing and being accorded the opportunity to be heard.

EXHIBITS

EXHIBIT No. 9

RETRAINING AND REEMPLOYMENT ADMINISTRATION

OFFICE OF WAR MOBILIZATION

STATEMENT OF FUNCTIONS AND PROBLEMS

Pursuant to the recommendations of the Baruch-Hancock report the Retraining and Reemployment Administration was set up in the Office of War Mobilization coordinately with the Surplus Property Administration, to guide the processes of demobilization, retraining, and reemployment.

Problem in brief.

The magnitude of the task is indicated by the fact that more than 12,000,000 workers have been added to the pay rolls, that half of the 62,000,000 persons in the labor force are directly in war work and that there has been a dislocation of workers in industries and occupations as well as a geographical dislocation which breaks all migration records. Probably 20,000,000 people will have to change their work at the end of hostilities. Millions of these will have to change their location. In order to make the shift over from war to peace activities many of them will need retraining, interim unemployment compensation, and finally location in peacetime jobs.

History of problem.

In 1918 there were plans for the transition period and legislation had already been introduced into Congress for the institution of a planned scheme to gear demobilization to the economic situation, but so engrossed were our public officials in the prosecution of the war and the preparation of plans for the peace that this legislation died in committee with little or no debate. As a result, when the armistice came peace caught the country unawares. There was no over-all organization of Government agencies to plan the transition. There was no flexible national program to bridge the gap between war orders and peacetime production. There was no efficient employment policy involving the cooperation of management, labor, and Government to steer the course of demobilization, conversion, retraining, and reemployment. Thus the country faced the post-war period without the guidance of its leaders. There was no time for the selection and training of the administrative force needed for the task. The whole process of demobilization and reemployment was thrown into confusion. One month after the armistice, while plans for demobilization were still in the formative stage, half a million men were released from the armed forces and unfortunately about one-third of these were demobilized in areas where thousands of workers were being released from war plants. There was little coordination between the cancellation of war contracts, conversion, and reemployment. Demoralization resulted. Soldiers returned from Europe and from camps in the United States to cool their heels in employment offices and to walk the streets looking for jobs that did not exist. Finally came the depression of 1929 and the great depression and breakdown of 1933.

Our impending dislocations are far greater than they were in the last war; hence the potentialities for economic and social catastrophe are greater. In such a situation over-all guidance becomes absolutely necessary. This Nation cannot fight a war for freedom from fear and freedom from want and run the risk of having its population faced with the fear of depression and want when the war is over. Bills have been introduced by Senator George and Senator Murray, S. 1730, and by Senators O'Mahoney and Kilgore, S. 1823, on this problem.

Retraining and Reemployment Administration.

In order that the mistakes of the past might not be repeated and to provide adequately for events to come, the Retraining and Reemployment Administration was set up by Executive Order 9427, under authority of the First War Powers Act of 1941. Its duties are as follows:

Functions.

The functions of the Retraining and Reemployment Administration with the advice of a policy board of representatives of nine Government agencies under the supervision of the Director of War Mobilization and in consultation with the Government agencies concerned are:

1. To have general supervision and direction of the activities of all Government agencies relating to the retraining and reemployment of persons discharged from the armed services; persons released from other war work, including all work directly affected by the reduction of the war program.

(a) To issue necessary regulations and directions in connection therewith.

(b) To advise with appropriate committees of Congress as to steps taken and to be taken.

2. To develop programs in consultation with the Government agencies concerned for the orderly absorption into other employment of persons discharged or released from the armed services or other war work, including:

(a) Adequate vocational training.

(b) Securing of jobs.

(c) Assistance to discharged persons and families pending reabsorption

(d) Special consideration of the problem of release of workers from non-convertible war industries.

(e) Integration of the above with wartime and manpower controls.

3. To develop programs for the adequate care of persons discharged or released from the armed services, including:

(a) Care of wounded and disabled by physical and occupational therapy and vocational rehabilitation.

(b) Provision for the resumption of education interrupted by the war.

Working principles.

Present viewpoints and assumptions are as follows:

A. The task constitutes a major national problem. The change-over from war to peace will affect every part of our economic life. No comparable task has ever existed before. More than \$50,000,000,000 worth of annual current production of strictly war goods will be stopped when the war ends. This gap must be filled in large part by civilian production and civilian services. In solving the problem it will be necessary, in the language of the Baruch report, to cure the things that cause us worry; to strengthen the good; to hold to the proven, as well as to test the new.

B. The task which confronts the Retraining and Reemployment Administration involves a partnership of Government, industry, and labor. While the function of the Administration is to secure facts and set up policies and issue regulations and procedures for an over-all guidance of the reconversion processes, as well as to institute programs, it cannot accomplish the purpose without the cooperation of industry. Manufacturers and businessmen through their organizations will need to make plans for peacetime production; including surveys of need, liquid purchasing power, deferred demand for consumer goods, schedule of producing the right amount of goods to meet the demand over a given period of time, and the translation of manufacturing estimates into terms of man-hours and job and labor inventories. Labor on the other hand will cooperate in various ways. Thus control will be matched by individual initiative and free enterprise.

C. Reemployment is the key to the post-war problem. The solution is full employment in an expanding economy. An economy of scarcity and the cutting down of the labor force are not the solution.

D. The veteran's welfare is closely interwoven with the welfare of all.

E. Production must be maintained as high as good business judgment will dictate. There must be work to do. Without it there can be no jobs. Utilization of the present labor expansion cannot take place in a vacuum. At the war's end there will be a tremendous void to fill which can only be filled by full production

of civilian goods and full use of services. Everything that will stimulate business, therefore, is essential to this program. There must be full utilization of new products and new inventions; full utilization of schools with their training faculties; dissemination of research findings on new world needs which can be met by American industry; encouragement of extensive trade with the nations that will need to be rehabilitated and rebuilt; encouragement of investment; adequate wage standards so that the population can purchase what it makes. As a means to this end industry and business must make plans now. It must estimate consumer demand, lay plans for reconversion of plants and machinery, estimate demand and purchasing power, estimate the product that should be turned out, and the labor components necessary to produce it. Various plans, such as the Gray plan and Lea plan have been proposed.

F. The full use of cushioning is necessary. The cushioning factors in the situation are as follows: The war will probably end in different places at different times, making a gradual demobilization possible, both of soldiers and war workers. Their absorption by peacetime industry will be aided by several factors—the retirement of many women from the labor force, especially in agriculture; the return of younger workers to school; the resumption of college and professional training which was interrupted by the war, now estimated as a back-log of 1,500,000 man-years of college education; the retraining of both soldiers and war workers to prepare them to take new jobs; the renewal of services and businesses stopped by the war; the starting of new enterprises based on inventions developed during the war; increased production and commerce to meet the needs of rehabilitation and construction in devastated countries; increased travel; reduction of the workweek; increased time for recreation; retirement of the older people, etc. These factors will cushion the transition from war to peace and should be kept in mind as aids in the readjustment program.

INVENTORY OF PROBLEMS IN RETRAINING AND REEMPLOYMENT

The following problems are receiving the attention of or are closely associated with the task of the Retraining and Reemployment Administration:

Fact finding and information.

1. Information on manpower needs and available labor supply; present and projected inventories.
2. Occupational outlook information; probable war-to-peace shifts in the labor force; amount of increase and decrease in labor demand for each industry and occupation within the industry—by States and regions.
3. Occupational analyses with emphasis upon common factors in related occupations for purpose of transfer of workers from wartime to peacetime jobs and from military to civilian pursuits.
4. Physical demands studies; job studies from the point of view of the requirements of the work for the selective placement of the handicapped.
5. Information for industries on how to use the handicapped in work they can do, maximizing their abilities and making minimal demands on their disabilities.
6. Handbook giving all the information on his rights and privileges a soldier or war worker needs to know.
7. Information centers for servicemen and war workers giving, in large cities, full information through specialized and trained interviewers, and in small places standardized information and handbook with referral to agency concerned which can give full advice and service.
8. Pooled information for guidance of production program for various industries.
9. Information on demobilization ratios in different geographical areas.
10. Economic and job information for soldiers, veterans, and war workers to guide them in their plans for retraining and employment now.
11. Report system for a quarterly survey and assembly of all information necessary for the reemployment program.

Demobilization, Reconversion, and Reemployment.

12. Questions of scheduling of reconversion of plants while the war is going on and afterward.
13. Problem of rate of demobilization in relation to ability of industry to absorb workers.
14. Cut-backs on contracts in areas of labor shortage first and in areas of labor surplus last.

15. Demobilization of war workers in industries and areas with due regard to the effect of such demobilization on the workers, the returning servicemen and on industry.

16. Aid to industries in the development of manning tables and job and labor inventories in projecting peacetime plans.

17. Balancing labor supply and demand by redistributing production where necessary.

18. Redistribution of labor from region to region to take care of the displacement occasioned by the war and to improve its utilization.

19. Continual reappraisal of the national production requirements in relation to consumer demand and manpower resources.

20. Provision for maintenance, reeducation, and utilization of men and women in factories where retooling is going on.

21. Limits of demobilization of Army and Navy in the light of national defense needs.

22. Estimated demobilization schedule—after one enemy is defeated; when both are defeated; during period of military government, and after.

23. Demobilization priorities: Those who have jobs waiting, first; oldest or married first; longest in service first. Which policy will serve reemployment and stabilization best?

24. Demobilization of wives with husbands.

Retraining.

25. Adequate provision for vocational training through utilization of agencies concerned and established institutions to enable soldiers and war workers to enter new employment.

26. Conversion of war-training institutions and programs, civilian and military, to peacetime training; utilization of suitable plants and facilities.

27. Institution of new facilities and courses if necessary.

28. Course construction, based on job analysis; streamlining and acceleration.

29. Preemployment or vestibule courses for men and women, war workers, and veterans, in industries.

30. Continuous training in industry after employment.

31. Liberalization of apprentice training for war veterans providing suitable credit for training and experience along the lines of the trade, and acceleration according to capabilities.

32. Experimental determination of minimum and maximum time required to learn a trade or other occupation.

33. Establishment of apprenticeship ratios by the labor unions and local apprenticeship committees for veterans.

34. Vocational and educational guidance, including testing for all applicants for retraining.

35. Determination of standard cost ranges for instruction, tools, and materials for training.

36. Securing of lists of accredited schools and training facilities.

37. Encouragement of the establishment of training departments in industry.

38. Encouragement of modern methods of instruction; visual aids, job sheets, laboratories, etc.

39. Encouragement of vocational education on adult level; subengineering technical training for foremen.

40. Continuation of job-instructor training, job-relations training in industry and in Government.

41. Prediction of retraining needs so that educational institutions may prepare their educational services.

Reemployment.

42. United States Employment Service program: Setting up of experimental stations in which best methods for veterans and war workers are worked out; training for counselors, etc.

43. Definition of programs of public and private associations for employment of veterans.

44. Definition of work of Selective Service System veterans' representatives.

45. Occupational analyses from the point of view of showing common or transferrable job elements and skills, and coding of occupations and workers on this basis to facilitate placement.

46. Preparation of charts on occupational trends.

47. Preferential employment for veterans in Government and industry; employment ratios for veterans.

48. Training on the job for disabled veterans in Government work with pay while training.

49. Occupational guidance.

50. Controlled referrals based on occupational information in hands of United States Employment Service.

51. Provision for securing the veteran his old job.

52. Estimated need and plans for public works and national service to take up slack in employment in interim period and afterward.

53. National service up to 1 year, or other length of time to be determined, for all youth, men, and women, including outdoor work, living, and training.

Rehabilitation.

54. Physical and mental rehabilitation of veterans while in the Army or Navy hospitals, or afterward, with the Veterans' Administration, with full utilization of physical and occupational therapy.

55. Vocational rehabilitation, including advisement and training under the Vocational Rehabilitation Service of the Veterans' Administration, with placement and follow-up.

56. Coordination of all rehabilitation programs so that continuous service is rendered the individual under military and civilian jurisdiction, in guidance and training; transferrable guidance schedules and records.

57. Rehabilitation of disabled war workers through the Rehabilitation Service of the Federal Security Agency.

58. Occupational analysis to determine physical requirements of jobs in preparation for selective placement of handicapped.

59. Establishment of employment ratios for the handicapped in industry—i. e. in the same proportion in industry as they are in the population or by some other measure.

60. Coding system for the purpose of relating certain patterns of disabilities to occupational demands; comparison of systems used in England and other countries.

61. Domiciliary care in veterans' hospitals for seriously disabled veterans.

62. Adjustment of workmen's compensation laws in the various States so that they do not work a hardship on those they aim to protect; Federal funds for extra compensation for second injuries, etc.

63. Securing of favorable attitudes of employers and workers toward the handicapped to aid in their employment.

64. Provisions for extra amount of permanency in jobs for the handicapped in view of the fact that the handicapped have difficulty in securing new jobs while as a matter of fact they hold their jobs very well.

65. Social rehabilitation of handicapped, especially the blind, since the reconstruction of their social and personal habits is basic to vocational rehabilitation.

Resumption of education interrupted by the war.

66. Provision for continuation of educational plans of veterans and young war workers.

67. Determination of conditions under which education will be furnished, including a length of time in relation to the length of service and proved educational achievement of the applicant.

68. Prediction of the amount of higher education needed and in what fields so that the institutions may prepare faculties and materials; poll of Army and Navy to secure intentions in regard to amount of education and subject matter desired—under various conditions: Government paying a certain amount; without Government subsidy, etc.

69. Determination of rates to be paid by the Government for tuition.

70. Determination of Government aid for subsistence while receiving education.

71. Revamping of college courses and methods to make them suitable for older and more experienced students; increase of technical education, and education in economic and political problems capitalizing the new knowledge of the world.

72. Advanced standing or credit on length of college courses for war experience, training, and travel.

73. Provision whereby those who can make the best use of education will get the most of it; emphasis upon special consideration for the bright as well as the backward.

74. Information bulletin revised annually listing all the courses of all the higher institutions indexed by course, occupation, and locality.

75. Information bulletin on all vocational education indexed by occupational objective and locality, including all private as well as public institutions.

76. Listing of schools on the recommendation of Governors of States or regional educational agencies as accredited for the education of veterans.

Provision for special groups.

77. Retraining and reemployment for women.

78. Retraining and reemployment plans for professional workers, technical workers, youth, aged, and the disabled.

79. Securing the cooperation of special groups, organizations, manufacturers associations, trade unions, etc., in educational plans.

Unemployment compensation and assistance.

80. Establishment of a temporary plan for unemployment compensation to carry over the adjustment period between dismissal or discharge and work for veterans, war workers, and others not presently covered by unemployment insurance—this plan to run so long as the Congress deems advisable. This plan would involve the Federal supplementing of existing State unemployment systems to the extent necessary.

81. Exploration of the advantages and disadvantages of dismissal pay. The practicability of this is open to serious question.

82. Old-age retirement system can be invoked in case of the superannuated.

83. Federal compensation to veterans while undergoing training.

Stimulation of production for jobs.

84. Government aid in industrial and business expansion.

85. Cooperation of business organizations, chambers of commerce, etc., in making jobs for demobilized soldiers and war workers.

86. Gearing American production to any plans which may be developed for reconstruction in devastated areas of Europe and Asia.

The above list of problems is not exhaustive, but is indicative of the types of problems which will have to be solved if the major task is to be accomplished.

Progress to date.

It should be borne in mind that the Executive order provides that the functions conferred on the Administration shall be performed through existing Government agencies and officials insofar as is feasible. It is the purpose of the Administration to fully comply with this provision, and, accordingly, it is anticipated that the organization to be developed will concern itself with basic problems relating to the coordination of functions and programs.

The Administrator has met a number of times with the representatives of the nine agencies making up the Policy Board, namely, the Department of Labor, Federal Security Agency, War Manpower Commission, Selective Service System, Veterans' Administration, Civil Service Commission, War Department, Navy Department, and the War Production Board, with the view of determining the programs of these agencies as they relate to retraining and reemployment in the interest of an integrated program.

In addition to the organization of the Policy Board an administrative office has been established.

Sufficient time has not yet elapsed for the Retraining and Reemployment Administration to give adequate consideration to the development and formulation of proposals to be presented to Congress for its consideration in connection with its functions. Such proposals as may be indicated will require a more comprehensive study and analysis of what is now being done under existing laws and through existing agencies in the fields of retraining and reemployment and what needs to be done.

It is the purpose of the Administrator to have comprehensive studies made for effecting the coordination of related work being done by the several agencies and establishing such programs for the post-war period as may be necessary to accomplish the objective or providing employment to the millions of workers and soldiers who will be faced with the necessity of seeking peacetime employment. It is believed that plans for the transition from war to peace constitutes part of the war effort.

Soon after the Executive order was issued establishing the Retraining and Reemployment Administration the heads of the Government agencies represented

on the Policy Board were requested to designate their respective representatives for membership on that Board. The Board was promptly organized and held its first meeting on February 28, 1944.

The Board has concerned itself with taking inventory of its responsibilities and functions in relation to the Administration and has given detailed consideration to the establishment of local information-centers where returning soldiers and war workers might go to ascertain their rights and privileges. The Board has also given consideration to the formulation and release of information in written form to persons being discharged from the armed forces. An appropriate pamphlet is now being prepared.

Further, initial meeting was had by the Administrator with labor, represented by Mr. William Green and Mr. Philip Murray. The part labor is to play in the work of the Administration was thoroughly discussed and both representatives asked to name a liaison officer to deal directly with the Retraining and Reemployment Administration on problems as they arose. This request was granted, and Mr. Matthew Woll and Mr. Robert Lamb were named.

Conference was had between the Administrator and Mr. Lamb and Mr. Woll recently, and they are cooperating by writing local organizations of labor, taking up with them a number of problems that will arise in reference to the reinstatement of men and women now in the service of the Army and Navy in employment.

Conference was had with the Manufacturers' Association to obtain information as to what steps they have taken and the cooperation that could be obtained through this organization made up of more than 40,000 manufacturers. They have agreed to obtain information essential in the planning required by the Retraining and Reemployment Administration.

A letter was addressed to all Governors with a view of determining what steps are being taken by the several States dealing with the problems of Retraining and Reemployment. Excellent responses have so far come in from 27 Governors. These reports are being analyzed, and a summary will be prepared from which prompt information may be obtained as to just what the plans are in each State and how they will fit into the final planning.

Conference was had with Mr. George Romney, managing director of the Automotive Council for War Production, relative to the steps being taken in the planning of the automotive industry. Valuable information will be obtained from this organization relative to reconversion and the problems that might arise relative to reemployment not only of those now in war work, but men and women in the services.

EXHIBIT No. 10

STATEMENT OF OBJECTIVES OF THE RETRAINING AND REEMPLOYMENT ADMINISTRATION BY BRIG. GEN. FRANK T. HINES, ADMINISTRATOR

In relation to the matters under your present consideration and in keeping with the request of your committee, permit me to make a few preliminary observations to you similar to the statement I made before the War Contracts Subcommittee of the Senate Military Affairs Committee on May 4, 1944, in the field of fitting and adjusting the manpower of this Nation to the period before us. Having accepted appointment by the President as Administrator of the Retraining and Reemployment Administration in the Office of War Mobilization, a position established, as you know, following recommendations of the Baruch-Hancock report, I enter into this work conscious above everything else that full understanding and unity in all the forces of our Government and our people are indispensable factors to the attainment of that success that will mean so much to us in the years ahead. No intelligent person can follow the work of this present Congress without recognition of its awareness and its virility of thought and action to problems confronting us. I welcome this opportunity to discuss with you the importance and the objectives of our retraining and reemployment work.

I could not enter upon my duties with the same sobering feeling of responsibility that possesses me if I were not so fully imbued with a consciousness that the retraining and reemployment of our manpower is the vital spot of all endeavor looking to the great transition from war to peace—the vital spot in protection against the dangers that will beset us—the vital spot in the continuance of our American way of life as free men. Herein I feel is the key to the

accomplishment of a cherished contentment and happiness for our people when implements of war are put aside.

If everyone in the United States willing to earn an honest living in the field of work for which he or she is fitted is given the opportunity to do so, the danger of difficulties that otherwise inevitably would arise will be dissipated. Domestic problems that will remain with us and new issues that arise from time to time can and will be controlled with a self-respecting American citizenry gainfully employed.

I believe I do not lose my perspective in feeling the importance of this matter. I know full well what hangs in the balance of our relationships with the nations of the world, either in the potentialities of conflict or peaceful pursuit of commerce. But I do maintain that we may win the war and win the peace in international adjustment and stability following the peace, and yet lose the peace here within our own borders at home if we fail in that coming great test of our Government's ability in our adjustment from war to peace. The retraining and reemployment of our manpower constitutes the very heart of that tremendous undertaking.

It takes very little imagination to conceive the extent of the work before us. You will recall the expressed hope of the President that we would serve the democracies of the world in necessary war materials to repel oppression. The merits of such a status is now aside the point in relation to the work of retraining and reemployment. The fact is that we are now the arsenal of democracy. This has entailed the building up almost overnight of a colossal industrial machine the like of which never before has been witnessed. During the incredibly short space of 3 years gross national production increased 100 percent from \$100,000,000,000 in 1940 to \$200,000,000,000 in 1943. Our armed forces have been increased by more than 10½ million. Manufacturing employment has increased to 175 percent of the 1939 base; an unprecedented labor force of approximately 61½ million are at work, more than one-half of them engaged directly in the war effort. Great shifts in our population have taken place and will continue to take place from one type of industry to another and from one locality to another. High wages are paid and there is an abundance of work for all. Our great American industry—a colossus in the world even before the outbreak of this war—has been geared to the gigantic struggle in which we are now engaged and runs full ahead, gaining momentum in its progress. What were blue prints but a year or two ago are now thunderous factories employing millions of men.

We have no admirals, we have no Army officers, we have no laymen, and we have no seers among us who can tell us when this war will end, or how abruptly. But any man of common sense among us will recognize the absolute necessity of preparedness to meet any eventuality in this respect. The peace that is rightly longed for in hearts of the mothers and fathers of America when the victory is won can only turn into the deserved fruition of security and happiness if we can successfully meet the dislocation that the peace will entail as well as we have met the onslaught of our enemies. That this Congress is aware of that fact is evidenced by the many measures proposed or agreed to by the Congress looking to post-war social and economic problems.

The functions of the Retraining and Reemployment Administration are defined and described in the Executive order establishing it as follows:

"With the assistance of the Retraining and Reemployment Policy Board, composed of a representative from the Department of Labor, Federal Security Agency, War Manpower Commission, and the Selective Service System, the Veterans' Administration, the Civil Service Commission, the War Department, the Navy Department, and the War Production Board, it is the function of the Administration:

"(a) To have general supervision and direction of the activities of all Government agencies relating to the retraining and reemployment of persons released from the armed services or other war work, including all work directly affected by the cessation of hostilities and the reduction of the war program * * * and to advise with the appropriate committees of Congress as to the steps taken or to be taken with respect thereto.

"(b) In consultation with the Government agencies concerned to develop programs for the orderly absorption into other employment of persons discharged or released from the armed forces or other war work, including adequate provision for vocational training, the finding of jobs for persons so discharged or released, or assisting those persons and their families pending their absorption into employment, and for dealing with the problems connected with the release of workers from the industries not readily convertible to peacetime use. * * *

"(c) In consultation with the Government agencies concerned to develop programs for the adequate care of persons discharged or returned from the armed services, including physical and occupational therapy for the wounded and the disabled and the resumption of education interrupted by the war."

Under the foregoing as Retraining and Reemployment Administrator, I fully understand and realize that my duties cover a very wide field in demobilization, rehabilitation, retraining, and relocation. In unity with the Congress, Government agencies, industry, and organizations of labor, I conceive it to be my task to chart, in the matter of manpower, the road back when the peace comes. It is not an easy task. The problems of demobilization are no less, and in many respects far greater than the problems of mobilization. As in peace we must be prepared for war, so in war we must be prepared for peace. The war effort and measures to insure the peace are interlocked; where the military leave off in the forward prosecution of the war, civil authority must carry on the great war-making machine in reverse. In the security of the Nation the latter is no less important than the former.

Among the problems confronting the Retraining and Reemployment Administration are the following: Jobs for all who can and want to work; vocational training for all who need it; resumption of high school and college educations interrupted by the war; special care and consideration for disabled veterans including physical and social rehabilitation; special employment problems of the great war industries; timing of release of workers from industry; rate and method of demobilizing the armed forces; problems of the geographical dislocation of labor; adjustment of labor laws to changing manpower needs; adequacy of unemployment insurance; distribution of information on occupational trends; advice and guidance in respect to employment; consultation with Congress on the above problems.

One of the cardinal principles of the Administration will be emphasis on the human factors involved. Never shall I lose sight of the fact I am dealing with souls—individual human beings with rightful individual characteristics and desires. The American way of government and of life shall be maintained in our work as against any Fascist rule that glibly obliterates the individual for advantage to the state.

At the entrance to the National Archives Building, where rest the permanent records of this Republic, there are inscribed in the marble at either side the two inscriptions: "Study the past" and "History is prologue." I intend, gentlemen, in the administration of retraining and reemployment to recognize those inscriptions particularly in the light of the history of our country in the wake of the last war. As to the millions of servicemen who will return to civil life, I set my goal that not a soul among them will become a mendicant—except at his own choosing. To do this the help and full cooperation of the Congress, of Government agencies, of labor, and of business is essential.

A multitude of facts and figures will enter into the work of the Retraining and Reemployment Administration. I shall not burden you with any detailed recitation of these. A few passing references may be of interest.

According to the estimate of the Bureau of Labor Statistics, immediately after the war manufacturing industries will face the largest total decline from a war peak of around 17 million to perhaps 12 million, with tremendous cuts in manpower in such industries as aircraft, shipbuilding, and machinery. Total Government employment will take a cut-back from approximately six to four million. The same Bureau of Labor Statistics estimates shifts in industry as follows: The manufacturing industries in which there will be a post-war reduction in labor force are iron and steel, about one-half a million; machinery one million; aircraft over a million; shipbuilding over a million; chemical and petroleum products one-third million; automobile concerns about a quarter million; and food one-quarter million.

Those industries in which it is estimated the labor force will remain approximately the same are printing, railway equipment, rubber, stone, clay and glass; and those wherein there will be increase in labor are lumber about one-sixth million; textiles, apparel, and leather products, about one-half million. In the nonmanufacturing industries there will be a reduction aside from the Government service about one-fourth million in transportation and in the nonmanufacturing industries in which there will be an increase we find construction estimated at nearly 2 million increase, trade three-quarter million, finance and services one-sixth million.

The people of this country are vitally interested in retraining and reemployment and are fully awake to its importance. Abundant evidence of that fact already has reached me. Business organizations, educational institutions, labor councils, alike unmistakably have shown their interest. I have confidence there will be cooperation in our efforts commensurate with that interest. A great part of my job lies in the maintenance of mutual understanding and unified action on the part of industry and labor. I feel hopeful that this working together in this vital question of retraining and reemployment will serve a purpose in the future thereance generally of understanding in all relations between industry and labor.

I do not conceive this retraining and reemployment work as an overnight job. There must be a well grounded and sustained effort to maintain the structure of Government assistance. This is not a stroke to put the Government further in business. It is the direct opposite. It is an effort, in the words of the Baruch report, to get Government out of business and private enterprise into it.

I have given you, gentlemen, with intended helpfulness, a brief general view of the work in hand for the Retraining and Reemployment Administration. In the interest of our boys who now bear the shock of the battle lines on foreign soil, in the interest of the American worker here at home and for the common good-of-our beloved country, I will carry on in the confidence that the work in which we are engaged will have your full support.

EXHIBIT No. 11

OFFICE OF WAR MOBILIZATION,
RETRAINING AND REEMPLOYMENT ADMINISTRATION,
Washington, D. C. May 15, 1944.

LETTERS FROM STATE GOVERNORS

CONDENSATION OF INFORMATION SUBMITTED

Informational letters from the governors of 45 States have been analyzed herein and a condensation of the contents of each is set forth below. They have been arranged alphabetically for convenient reference.

Alabama.—A permanent committee on veterans' assistance has been established which is now engaged in coordinating, at State level, all activities of interested agencies. It is expected that this coordination will be expanded to local levels shortly.

Arizona.—In addition to a very comprehensive program of road building, plans are also being considered for development of the Colorado River irrigation project, establishment of post-war flying instruction schools and utilization of the beneficial climate of the State for incapacitated veterans. This last plan will necessitate additional hospital facilities and should result in increasing need for reclaimed lands available through irrigation.

A strong plea is made that Congress take action to indicate the amount of Federal appropriation in State public-works programs since the lack of such knowledge hampers the progress of the State and local planning commissions.

Arkansas.—The State planning board is organizing and directing the preparation of a 6-year plan for public-works program covering State, counties, and cities. A volunteer organization of industrial and business leaders, the Arkansas Economic Council is progressing rapidly along the lines of the Committee for Economic Development in developing the plans of private enterprise.

California.—Has established the reconstruction and reemployment committee as the State coordinating agency on post-war problems. There is also a citizens advisory committee for demobilized service men and women. Reports of surveys are in preparation and results will be submitted as soon as available.

Colorado.—Plans are indefinite and immature, although an attempt is being made to centralize the post-war planning program in the Colorado Council of Defense. Consideration is being given to decentralizing activity to local committees.

Connecticut.—The Connecticut Commission for Reemployment, with representatives of industry, labor, mercantile business, veterans' organizations, service clubs, and governmental and educational agencies, has worked out extensive plans for community organizations. A basic plan has been prepared, to be activated by the local organizations covering guidance and placement service for both veterans and war workers, with special emphasis on returned servicemen. They have also worked out an information directory for service men and women.

Their reemployment plan is primarily based upon stimulation of private industry.

Florida.—The Florida State Planning Board has been designated the responsible agency for the development of plans. This organization will cooperate in providing Relief and Rehabilitation Administration information regarding covering the State of Florida.

Georgia.—No definite action has been taken but is eager to cooperate with Relief and Rehabilitation Administration.

Idaho.—Has reorganized the State planning board for the purpose of handling the over-all study of post-war planning and to work out a 6-year program of useful public works. Has also established a rehabilitation and employment committee and a labor relations committee.

Also, considerable emphasis is placed upon reemployment of servicemen but program seems to be broad enough to cover war workers as well.

Idaho has also been active in forming the Northwestern State Development Association to handle the joint problems of flood control, irrigation, power, and navigation, covering five Northwestern States.

Illinois.—A Governor's committee on veterans' rehabilitation and employment has established 107 field offices for the purpose of giving informational aid to returned veterans. Such contacts now amount to 1,500. Standardized information is available by means of a manual, prepared by the Governor's committee, which has cataloged the sources of all Federal, State, and local aid. The Governor's committee has set up committees for employment and for education. It further plans to consolidate all local agencies into one central community council.

Indiana.—Is organizing a Governor's committee on veterans' rehabilitation and employment, with representation of all Government agencies concerned. It is proposed that this committee will transmit its information and service to all local communities.

Iowa.—Has no definite plan as yet but has offered to cooperate with Relief and Rehabilitation Administration.

Kansas.—The Kansas Industrial Development Commission has been established to prepare post-war employment plans, and conferences have been held with representatives of agriculture, labor, industry, and education groups for the purpose of making all communities conscious of the need for rehabilitation and improvements of a permanent, stable value.

Kentucky.—Has no defined plan but has offered to cooperate and asks for suggestions from Relief and Rehabilitation Administration.

Louisiana.—Each of the 94 selective-service boards have reemployment committees for the purpose of contacting returning servicemen. There is also active participation on the part of chambers of commerce, veterans organizations, etc.

The State has set up a State planning committee.

The Louisiana Civilian Defense Council, of which the Governor is a director, has organized a rehabilitation and reemployment executive committee, made up of veterans' organizations, State, labor, health, and educational departments, etc. The function of this committee is almost identical with the plan of the Policy Board for establishing local information committees, with membership to consist of representatives from all interested governmental State and volunteer agencies.

The available information is to include employment possibilities, medical care, benefits, educational and vocational training for both veterans and war workers. Local committees are advised of legislation which makes possible financial assistance until such time as State and veteran responsibility is defined.

Maine.—The veterans' service committee has been set up to give advice and counsel to veterans, particularly those of World War II. This organization coordinates the activities of all the State's veterans agencies.

The Maine Development Commission is also actively engaged in preparation of post-war employment studies.

Maryland.—A post-war reconstruction and development commission has been set up to study employment readjustment. There has also been established a veterans' advisory committee to coordinate, at State level, the activities of various veterans' aid and rehabilitation groups.

Massachusetts.—The committee on post-war readjustment has been established for the purpose of stimulating private enterprise in problems of conversion. Several commissions have been set up to prepare plans for public works projects, highway construction, improvement of public utilities, coordination

of veterans' activities throughout the State, as well as preparation of legislative changes necessary to conduct the program. State funds have been appropriated and emphasis is being placed on projects which can be carried on with or without the aid of the Federal Government.

Michigan.—The office of veterans' affairs, as a division of the executive offices, has organized local councils in all but four communities with population of 25,000 or more. They have also organized in many smaller communities. These councils are aided by an advisory committee, consisting of representatives from veterans organizations, and four World War II veterans.

Although the entire State plan seems confined to these veteran information centers, they have been extremely well and comprehensively organized with arrangements made for the services of paid counselors. Schools have also been established for the training of these counselors.

Mississippi.—Has combined the activities of the agriculture and industrial commission and the State planning commission to plan an extensive public works program covering road building, factories, agriculture marketing, which includes development of processing and preserving plants. Has also made provision for a vocational training course in junior colleges.

Are thinking far in terms of preparation for jobs for both war workers and veterans but nothing is said of information centers.

Would welcome suggestions.

Montana.—A State agency has been set up with branches in each county. The personnel of these branches are contacting all returning servicemen to give them free assistance in finding employment and such other aid and information as will speed social readjustment.

Nebraska.—Believe that an over-all plan must come from the Federal Government and that when such a plan is forthcoming will be ready to cooperate.

Nevada.—The State planning board, created in 1937, will supervise post-war development in accordance with a 6-year plan of public works improvement. Apparently funds have been appropriated to cover the needs of this 6-year program.

In addition, economic conference committees have been formed for the purpose of organizing private business in the preparation of concrete plans for peacetime expansion and employment.

New Hampshire.—Has planned their entire program around the Selective Service System with State Selective Service director in charge. Touches only on reemployment as it affects veterans.

New Jersey.—Plans are being considered by a commission on post-war economic welfare, which has been established under the chairmanship of the president of the State senate.

New Mexico.—An employment program is being prepared by the State planning board.

New York.—A post-war planning commission has been organized and considerable legislation has been passed covering many phases of aid to returning veterans. Legislation has also been passed providing for the establishment of municipal funds for use in post-war planning.

North Carolina.—Have outlined the work being done for veterans within the various State agencies already set up, together with plans for increasing the staffs thereof. Plans include a general 10 percent veterans' preference in State employment and reemployment in old jobs if the veteran seeks the old job.

The State labor department has established a veterans' service division for aid in compensation, hospitalization, and educational matters. The division of vocational rehabilitation, together with the Veterans' Administration, will give information and guidance in vocational rehabilitation, medical examinations, financial rehabilitation, etc.

No mention is made either of war workers or of additional sources of information.

North Dakota.—Information will be forthcoming shortly.

Ohio.—Ohio has done extensive work in planning for industrial expansion after the war. This includes a survey of all natural resources and industrial facilities, availability of water supply, the development of vocational education program in trades, and the maintenance of the lowest possible tax burden.

The Ohio Post-war Program Commission has designed plans for public works to be financed by the State and local governments, as well as cooperating with the development of industrial programs.

Arrangements have been made to restore to civil-service positions all physically able veterans and an informational booklet has been prepared setting forth the rights of returning veterans.

Oklahoma.—Has established a post-war planning commission to prepare program of public works. The commission is making further studies in close cooperation with labor, industry, and agriculture.

Emphasis is being placed on service men and women, also some consideration is being given war workers.

Oregon.—Has established the post-war readjustment committee; is planning a public-works program of approximately \$320,000,000, covering Federal, State, and municipal projects. Surveys also indicate that private building will amount to approximately \$200,000,000.

Has also established veterans' war-service commission to furnish uniform veterans information and two members of each draft board have been designated to give personal aid to returning servicemen. Legislation is being considered for educational aid to veterans.

Pennsylvania.—A post-war planning commission has been established, together with a veterans' commission. The mission of the last-named organization is the preparation of plans for assisting veterans and to direct them to proper channels.

Rhode Island.—Acknowledgment supplies no information as to plans or program.

South Carolina.—The preparedness for peace commission has planned a comprehensive program covering public works, reorganization of State government system, study of tax structure to prevent its retarding any of their small businesses, and coordination of labor and industry.

Special emphasis is placed on study of private enterprise. No indication is given as to the actual progress of this plan.

South Dakota.—Plans have been prepared, based on public-works programs such as highway construction, game, fish, and other recreational projects, and the possible establishment of a permanent Army aeronautical reserve training school. The major plan is centered on a flood-control plan for the Missouri River, as worked out by Army engineers.

Apparently the entire program is subject to legislative approval, no funds have yet been provided, and no committee has been established.

Tennessee.—A post-war planning committee has been set up and funds have been appropriated to expand the ex-servicemen's bureau, an organization originally set up to take care of the veterans of World War I.

Texas.—Has brought up the reemployment program within the Selective Service organization of their State. Every local board is to have at least one committeeman to serve as agent and counselor for placement of veterans.

There has also been organized the post-war economic development committee which is to work out plans covering labor, industrial, agriculture groups, although this has not yet gotten under way.

The contacting of returning servicemen is being very carefully maintained.

Utah.—Has set up a citizens' committee to work out plans and to arouse public sentiment in order that private enterprise will cooperate with state efforts. Plans are not sufficiently definite to report.

Vermont.—Has set up the Vermont Post-War Planning Counsel to plan for extension of employment opportunities in private industry, revamping of State educational system to cover veteran rehabilitation, and to provide long-range public-works plans.

Funds have already been earmarked and plans drawn for road building and a State office building. However, the State does not plan to use public works as a main solution of employment.

Virginia.—Highway construction and sizable capital improvements will be started at the end of the war and appropriations have been set aside therefor. A plan has also been devised for the return to former positions of those servicemen who left the State government to enter the service.

Washington.—The State planning council has set up a committee for post-victory employment with subcommittees in each town. These subcommittees act as clearing houses in all communities for post-war plans covering the stimulation of private enterprise, education, and rehabilitation of veterans, etc. Pamphlets have been prepared and distributed with a view to educating the public to the need for active post-war planning. No mention is made of planned public-works projects.

West Virginia.—A committee has been set up to study post-war planning and to work closely with representatives of labor, Government, and industry in formulating programs for physical and economic rehabilitation of military personnel. In addition, the State department of public assistance and the State board of education are being expanded in anticipation of increased activity.

A 3-year road-building program has been planned, for which money will be raised by sale of bonds at the end of the war. A plan for building 88 airports is entirely dependent upon Federal appropriations, while further plans for adding to or improving State institutions depend entirely upon the condition of State funds when the war is over.

Wisconsin.—A veterans' recognition board has been organized with broad functions covering not only emergency and distress relief provision but also economic, educational, and medical assistance programs. This board is supported by a fund raised from a surtax on income and approximates \$7,000,000. Activities are coordinated with universities, bankers' and manufacturers' organizations, labor and agricultural groups, and chambers of commerce.

Wyoming.—A post-war planning committee has been established and plans are under way for an extensive public-works program covering highway and institution construction, and reclamation and irrigation projects. Provision has already been made for an appropriation of State funds for this purpose.

The three States from which information has not been received are Delaware, Minnesota, and Missouri.

EXHIBIT No. 12

REPRINT FROM EIGHTH ANNUAL REPORT, 1943, OF THE SOCIAL SECURITY BOARD,
FEDERAL SECURITY AGENCY

A BASIC MINIMUM PROGRAM OF SOCIAL SECURITY

The purpose of a comprehensive program of social security is simple: Basically, it is to enable the working population to maintain economic independence throughout the cycle of family life by distributing the return from labor over the periods in which breadwinners can earn and those in which they cannot; at any one time, contributions made by the many who are subject to the risk are available to compensate the relatively few who at that time are suffering its impact. In addition, there must be systematic measures to assure the subsistence of persons who have not been able to share in social security provisions based on work or who have met with extraordinary individual catastrophes.

It is not the aim of social security to provide a lifetime bonus. Social insurance represents, rather, a safeguard against economic hazards besetting the long road of self-support and family support, which is arduous and risky for most in any working generation. Among workers, as among a party of mountain climbers, some at any moment will have a secure foothold, while others, except for the safety rope, would slip to disaster. Some persons in each generation are not able to share in gainful work while some others at any given time will not have acquired an insurance stake commensurate with their individual needs. For these, public assistance, representing the effort of the entire population, provides a secondary safeguard to the maintenance of personal and social integrity.

The major functions of a program of social security are therefore to cope with wage losses arising from the interruption or cessation of earnings and to remedy deficiencies in the personal resources of individuals who lack the means of subsistence. Rights to insurance stem from the individual's previous participation in work; rights to assistance, from his current need. Since capacity and opportunity to work are the foundation of both individual and national security, public measures to prevent and care for sickness and to assure access to jobs are essential to organized programs of social security.

The existence of opportunities for work is governed, of course, by basic economic factors beyond the scope and control of the social-security system. Insurance and assistance payments facilitate the smooth and orderly operation of economic forces by augmenting purchasing power when and where it is most needed. A comprehensive and flexible system of social security thus enables individuals, and aids communities and the Nation as a whole, to adjust to the changes and dislocations which are inherent even in progress. When disaster threatens, the system is all the more necessary.

Progress under the Social Security Act has been more substantial than its proponents would have dared to predict 8 years ago. The provisions of law and the process of administration have been tested through an arc of widely differing economic conditions in years of depression, recovery, and war. The objectives of the program have been found in accord with the traditions and desires of the American people. Nearly all the principles incorporated in the original law and the 1939 amendments have proved sound and workable. On the other hand, certain minor provisions have been found cumbersome or defective, and experience has demonstrated one major fault in the design of the program. Certain gaps in its provisions, recognized and postponed for later action by those who were responsible for the formulation of the program, have become increasingly evident as it has developed.

No one can doubt that victory will bring sharp and sudden changes in all the factors in American life with which the social-security program is concerned. Whether that time comes sooner or later, it is now none too soon to design and implement the social-security provisions which will be needed during the demobilization of war industry and the armed forces, later readjustments to peacetime conditions, and the more remote future. If the program is to fulfill the anticipations and expressed desires of those who look to it—on battle fronts abroad and in homes and factories within our own borders—such consideration is needed now. The following pages outline in brief and general terms the areas in which, in the opinion of the Board, the program must be extended, changed, or implemented if it is to play its part now and in the years just ahead.

Social insurance.

A comprehensive system of social insurance would include provisions to compensate part of the involuntary loss of earnings experienced by the working population for any common reason beyond the control of individual workers. Such reasons may be grouped into those which cause prolonged or permanent loss of earnings—old age, death, and permanent disability of the wage earner, and those which cause more or less temporary interruption of earnings—unemployment and sickness. An approach to both types of risks is made under the Social Security Act through the provisions for old-age and survivors insurance and for unemployment compensation. In the opinion of the Board, the existing measures need revision and extension. The act contains no provision for offsetting wage losses due to sickness and disability except those incurred in old age.

Old-age and survivors insurance.—The fundamental limitation of this Federal insurance program is its restriction of coverage, the extent and character of which have been outlined in earlier pages. The Board believes that the wartime situation gives particular urgency to its recommendation that coverage be extended to agricultural workers, domestic workers in private homes, employees of nonprofit organizations, and self-employed persons. The high levels of current employment and earnings now would make it possible for many workers to pay contributions and thus gain insurance rights which they may not be able to acquire in future years, in particular the older workers who may be in need of retirement provision when the war ends and younger men return to civilian life. Extension of coverage would not entail serious administrative difficulties. For appropriate groups, it might be effective to use a stamp system, under which employers purchase stamps at post offices or from rural mail carriers to place in a book which evidences the contributions made by workers and employers. Extension of the basic protection of old-age and survivors insurance to public employees—Federal, State, and local—would also be feasible and would round out insurance protection of survivors, now lacking to nearly all these employees, and provisions for old-age retirement, now unavailable to many, and would assure continuity of rights. Extension should be made in such a way as not to endanger any rights of these workers under existing special systems and to increase, not lessen, the total insurance protection available to them.

An immediate problem related to coverage arises from the situation of the millions of persons now in the armed forces. Because of the eligibility provisions and the method of computing benefits under the program, the insurance protection which service men and women may have acquired before their induction will be partly or wholly used up, and the amount of potential benefits payable to them or to their survivors will diminish. Service men and women have protection against death while in service, or after service from service-connected causes, in the form of benefits provided under veterans' legislation; in some cases, survivors of veterans who die while in service will be eligible for both veterans'

benefits and old-age and survivors insurance benefits. After discharge from service, however, many veterans will be without any survivorship protection in the event of death from non-service-connected causes. The problem with respect to veterans who live to retirement age is less acute, since very few who leave military service after the war will be ineligible for old-age and survivors insurance benefits because of their military service, and, though benefit amounts will be somewhat reduced in all cases, the amount of the reduction will be small. Moreover, the great majority of the present members of the armed forces will not reach retirement age for many years. As a solution to the problems with respect to the armed forces, the Board recommends the adoption of provisions which will equitably protect potential insurance rights developed before entrance into the armed forces and which will give equitable wage credits based on periods of national service in lieu of private employment. Such provisions should be accompanied by appropriate arrangements to reimburse the insurance system out of general funds of the Treasury.

The Board is also prepared to offer recommendations with respect to changes in the present program which would strengthen its protection and remove certain anomalies, inequities, and administrative complexities. Among changes to improve adequacy are those which relate to the age at which benefits become payable to women, the amount and conditions for payment of parent's benefits, the conditions for payment of lump-sum death benefits, the maximum amount of all benefits payable with respect to the wages of an insured worker, and the recomputation of benefit amounts after an application for primary benefits has been filed.

Since wives are ordinarily younger than their husbands, the qualifying age of 65 for receipt of a wife's benefit often works hardship on aged couples when the husband must or wishes to give up work on reaching retirement age, while the benefit for his wife is not payable until several years later. There is little doubt that the proportion of women who are unable to engage in regular employment at age 60 is larger than the proportion of men at age 65. A minimum qualifying age of 60 years, rather than the present 65, would therefore be desirable for wives of primary beneficiaries, for women workers who claim benefits in their own right, and for widows of insured workers.

At present, benefits to children aged 16 and 17 must be suspended if the child fails to attend school regularly and attendance is feasible. Since ordinarily it is found that school attendance is not feasible for the older children who are not in school, the Board recommends deletion of this requirement, which results in a large number of fruitless investigations.

Unemployment insurance.—The course of events since Pearl Harbor has emphasized what had become increasingly evident in prior years—that employment and unemployment are no respecters of State lines. When the social-security program first came under discussion, it was argued that establishment of State systems for unemployment compensation would afford an opportunity for experimenting in different types of unemployment insurance and for adapting State systems to the widely varying economic conditions of the different States. It was also pointed out that the Federal-State system itself should be regarded as an experiment. Both the present world situation and the results of 4 years' full operation of all State programs now make it urgent to evaluate experience.

Serious administrative complexities are inherent in the present basis of operation because of the duplication of effort on the part of various Federal and State agencies concerned with the collection of contributions and maintenance of wage records for social insurance purposes. The multiple system of tax collection is unduly costly in terms of public expenditures and expenses of employers for tax compliance. Nearly all establishments are subject to Federal contribution for old-age and survivors insurance, the Federal unemployment tax, and contributions under one or more State unemployment compensation laws. On the other hand, some small employers are not subject to the Federal unemployment tax, though liable for Federal old-age and survivors insurance contributions and unemployment contributions under State law. A few are subject only to the last and not to any Federal tax. When an employer is taxable by both Federal and State governments, the respective coverage does not necessarily relate to the same employees or the same amounts of wages. An interstate employer may be required to make reports to several different States on different forms, under different instructions, and at different rates. He may not be sure in which State a worker is covered. Triplicate tax collections must be made—by the Federal Government for the two Federal insurance taxes and by the State unemployment compensation agencies. Duplicat-

ing wage records are necessarily maintained by the Federal Government for purposes of old-age and survivors insurance and by the State unemployment compensation agencies.

Difficulties and conflicts in administration also result from the present division of responsibilities for unemployment insurance between the Federal Government and the States. Federal grants to States under the Social Security Act supply the total cost of "proper and efficient administration" of State laws. The State agency is responsible for administering the State law; it spends Federal money without responsibility for providing the funds. The Social Security Board must ascertain that the funds have been used in accordance with the terms of the Federal law, yet it lacks authority to prescribe methods which have proved economical and efficient without infringing on the responsibility of the State. Appropriate discharge of the responsibility of one agency almost inevitably conflicts with the responsibility possessed by the other.

Of greater importance is the increasing evidence that the Federal-State system results in great diversity in the protection afforded against the risk of unemployment. Development of unemployment insurance under the 51 separate laws of the States and Territories has resulted in serious discrepancies in the adequacy of the provisions for unemployed workers in various parts of the country. It has also resulted in a segregation of insurance reserves under which there is a possibility that some States may become insolvent while other States have unnecessarily large reserves. The variations in contribution rates now permissible under the Social Security Act through State provisions for experience rating place disproportionate burdens on employers in interstate competition and set a penalty on the efforts of any particular State to improve its benefit standards and a premium on measures to restrict payments to workers.

In the opinion of the Social Security Board, these and other discrepancies, complexities, and lacks in the existing Federal-State program all lead to a single conclusion—that the origin and character of mass unemployment and of measures to combat it are such that responsibility for unemployment insurance cannot safely be divided among 51 separate systems. Evidence accumulates daily on the extent to which the tides of employment and unemployment are governed by Nation-wide or world-wide conditions. The conditions of employment within the United States are and will be governed largely by circumstances which only the Federal Government can influence—for example, policies concerning the cancelation of war contracts and demobilization of the armed forces. Because of the differences in size and economic structure, the States are not equally sound financial units for unemployment insurance purposes. To ensure payments of benefits to qualified unemployed workers in any part of the country, reserves segregated in 51 funds must be far larger, in the aggregate, than would be necessary if the total were available to pay benefits wherever the claims originated.

The early discussion of adapting unemployment insurance to the particular conditions of a State overlooked the fact that variations in wage scales, types of industry, risks of unemployment, and other important factors are at least as great within States as among the 51 jurisdictions participating in the present program. A national system under which benefits are a proportion of wages, as is the case under the Federal old-age and survivors insurance system, effects an automatic adjustment of benefit payments to differences in pay scales in different areas. Present differences among the States in coverage, benefit provisions, and assets available for benefits bear little consistent relation to underlying economic differences.

The Board therefore is of the opinion that administration of unemployment insurance should be made a Federal responsibility in order to gear unemployment compensation effectively into a comprehensive national system of social security. Only Nation-wide measures to counter unemployment can be effective when the need arises for swift and concerted action to harmonize insurance activities with national policy during the change-over of our economic system to peace. At that time, any need for quick and unforeseen changes obviously can be met far more effectively by Nation-wide policy and by a single act of Congress than through the action of 51 administrative agencies and the necessarily cumbersome process of amending as many separate laws.

Even if the special stresses of post-war years were not impending, the Federal-State basis of the unemployment-compensation program would have merited reconsideration and revision at this time. The actual course of its operation during a relatively favorable period of years has given no indication, in the

opinion of the Board, that it possesses the advantages which it was hoped thus to achieve; on the contrary, experience has marshaled impressive evidence of its flaws and shortcomings. Incorporation of unemployment insurance in a unified national system of social insurance would result, the Board believes, in a program far safer, stronger, and more nearly adequate from the standpoint of unemployed workers and the Nation, and would permit more economical and effective methods of administration.

Losses and costs of disability.—Loss of earnings from permanent and total disability has been widely accepted in other countries, and under retirement plans in this country, as a risk paralleling loss of earnings in old age. The worker who is permanently disabled in youth or middle age is in very much the same situation as the worker incapacitated by age, except that his need for insurance may be even greater because he has had less time to accumulate savings while his responsibilities for family support are likely to be greater. The Board recommends that insurance against permanent total disability be incorporated in the Federal system of old-age and survivors insurance and extended to all covered by that system under provisions, including benefits to dependents, which would follow the general pattern of this Federal program.

Cash benefits for temporary sickness and the early period of disabilities which may later prove permanent would strike at another serious cause of poverty and dependency. The Board believes that such provision is a feasible and needed adjunct to the social-security program. Compensation of disability would be most effective and also most readily administered if provisions for both types of benefits were coordinated, so that the worker who had received the maximum number of weeks of benefits for temporary disability and was still incapacitated could continue to receive compensation, with appropriate adjustment of levels of benefits to the duration of disability. A unified system of disability compensation merits careful consideration.

Costs of medical care, as has been pointed out, are a peculiarly appropriate field for insurance provisions, since the problem does not lie in the average annual cost but in the uneven and unpredictable incidence of a risk to which nearly all the population is subject. These costs, as well as losses of earnings, constitute an important direct factor in causing dependency. Moreover, there is impressive evidence that the barrier of currently meeting costs of medical care keeps many individuals from receiving services which might prevent or cure sickness and disability and postpone death. From the standpoint of the general welfare and of safeguarding public funds for insurance, assistance, and public services provided in dependency, the Board believes that comprehensive measures can and should be undertaken to distribute medical costs and assure access to services of hospitals, physicians, laboratories, and the like to all who have need of them. For all groups ordinarily self-supporting, such a step would mean primarily a redistribution of existing costs through insurance devices. It should be effected in such a way as to preserve free choice of doctor or hospital and personal relationships between physicians and their patients, to maintain professional leadership, to ensure adequate remuneration—very probably, more nearly adequate than that in customary circumstances—to all practitioners and institutions furnishing medical and health services, and to guarantee the continued independence of nongovernmental hospitals.

A comprehensive unified system of social insurance.—The present recommendations of the Board would result in the establishment of a single comprehensive system of social insurance with provisions for compensating a reasonable portion of wage losses due to unemployment, sickness and disability, old age, and death, and a considerable part of the expense of hospital and medical services. It is believed that all these types of insurance should include specific provisions not only for the insured worker himself but also, as is now the case in old-age and survivors insurance, for his wife or widow and his dependent children. The system should cover all persons who work for others, including the large groups of agricultural and domestic workers now almost wholly without social insurance protection and, except probably for unemployment compensation and temporary-disability insurance, farmers and other self-employed persons. It is difficult to extend insurance against unemployment or temporary disability to self-employed persons because of the problem of determining whether interruption of work has resulted in loss of income.

A unified system which is comprehensive with respect to both the risks and the population included would close the gaps and obviate the overlaps that result from variations and restrictions in the multiplicity of existing Federal,

State, and local provisions for social insurance purposes. This result would be of special importance not only in ensuring protection for workers who now lack any insurance coverage, but also for improving the levels of benefits for those whose employment has been partly outside the coverage of a given system and those whose covered employment has been interrupted by periods of unemployment or disability. It would be feasible to remedy the disparities and inequities in benefits of different types, gearing all benefits to levels of earnings and presumptive requirements, with respect both to the short- or long-term character of the risk and the worker's family responsibilities.

A comprehensive national system, moreover, would make possible much greater simplicity and economy in operation. One system for collection of contributions would suffice. One employer report and one set of wage records would supply the information needed for computation of benefits. One local administrative office could maintain contacts with workers, claimants, and employers with respect to all the types of insurance. Administration of such a system should, in the opinion of the Board, be decentralized, with advisory councils and appeals boards in the several States.

The costs of a comprehensive system are not great in relation to the return to be anticipated in national and individual protection and the alternative costs now borne directly and indirectly by individuals, employers, and the general public. For at least the first decade, the current cost for all types of the benefits mentioned above would be more than met by a rate of 12 percent of covered earnings for employers and employees combined, as compared with the combined standard rate of 7 percent payable by employers and workers for insurance programs under the Social Security Act beginning January 1944. If the total is divided equally between employers and workers, there would be an increase from 5 percent to 6 percent in the basic employer rate and from 2 percent to 6 percent in the rate for employees. The 4-percent increase for employees does not exceed the present average annual cost of medical care among wage-earning families, without allowance for the uncompensated wage losses they experience from such causes and other contingencies for which the system would provide. When account is taken of the increases already scheduled in the Federal Insurance Contributions Act by 1949, the proposed 12 percent would mean no increase in employer rates and an addition of 3 percent of wages for employees. If all employees were covered and, except for unemployment and temporary disability insurance, all self-employed persons, future costs of public assistance would be considerably lightened.

Since a rise in current expenditures for old-age and survivors benefits is to be anticipated for some decades to come and a similar cumulating increase would occur in long-term benefits for permanent total disability, the rate of 12 percent may become insufficient after a decade or more to meet total benefit expenditures under such a program. The Board recommends that any costs in excess of 12 percent should be met by a Federal contribution to the system, and that eventually employers, workers, and the Federal Government should each bear one-third of the cost.

The Board believes that social insurance is essentially national in character. In the course of a working lifetime many individuals move from State to State. Congress determined that the maintenance of lifetime records of earnings, among other considerations, pointed to the desirability of a national system of old-age and survivors insurance. Similar problems would be involved in the long-term risk of permanent total disability. Experience in the operation of the Federal-State unemployment-compensation system has made it clear that protection of current-risk programs is weakened by segregation of separate State funds and that administrative complexities and costs are increased by the existence of separate State systems. Since the cost of social insurance is met in considerable part from pay rolls, the presence or absence of particular insurance programs and differences in the rates of contributions for existing programs both serve to create unfair interstate competition when programs are on a State basis.

The Board is not unmindful that the program here proposed would entail modifications of many existing arrangements for social insurance and related programs as well as the establishment of new mechanisms in areas where none now exists. It has given study and thought to many of the particulars which would be involved in implementing this plan or some modification of it, and is prepared to offer more specific information and recommendations should these be desired by the Congress.

Public assistance.

In public assistance, as contrasted with social insurance, the Board believes that there is a strong presumption in favor of State programs. The costs of assistance are met from general revenues, rather than on the basis of pay rolls, and payments are made on the basis of current individual need. Since, however, the Federal Government shares assistance costs under the Social Security Act, it must be concerned that the basis and extent of Federal participation are such as will effect the purpose of the social-security program.

Special types of public assistance.—The most serious lack in operations under present provisions of the Social Security Act is that evidenced by inadequacies of assistance in many collaborating States. A major factor underlying this situation, as has been pointed out, is the uniform-matching basis of Federal grants for the needy aged, children, and the blind, in combination with the inequalities in State resources for assistance. The present basis of Federal financial participation has not served effectively to diminish State difference in the availability of assistance to needy persons; at its worst, it has heightened these differences in some respects. The Board therefore recommends consideration of a variable-matching basis, under which the Federal grant-in-aid would cover more than half the total cost in States which themselves have only small economic resources.

The studies made by the Board during the past 8 years lead to the conclusion that State per capita income, as indicated in annual estimates now prepared regularly by the Federal Government for other purposes, affords a reasonable basis for objective measurement of State differences in economic and fiscal capacity. It might be found feasible, for example, to continue the Federal grant at 50 percent of expenditures under an approved State assistance plan for States in which per capita income is at or above the national per capita. When average income in a State is below the national average, the Federal grant to the State might be increased accordingly. For example, if per capita income in a State is only half that in the country as a whole, the Federal share in assistance costs might be twice that of the State.

It would be appropriate to require, as a condition of Federal grants, that the States themselves make similar adjustments among localities which share assistance costs under Federal-State programs. The Board also believes that it would be reasonable to require, as a condition of approval of the State assistance plan, elimination of State residence requirements for recipients of assistance. Legal settlement in a locality has long been a characteristic condition of eligibility for older forms of public aid since, typically, all costs of relief were met by localities. The Social Security Act specifies maximum State residence requirements which may be imposed in a State plan that is approved by the Social Security Board, and that some State funds be provided even though there is local financial participation. If an increased part of the total assistance cost is borne by Federal funds, it would seem reasonable to eliminate State residence requirements.

Among the three assistance programs now maintained under the Social Security Act, the gravest inadequacies are in aid to dependent children. Studies of the Board lead to the conclusion that need among children is at least as great as that among the aged, while aid actually given for children is only a fraction of that for the aged in terms of either the number of recipients or the total amounts. Serious limitations in the availability of Federal funds for needy children arise under two conditions of the Federal act: the restriction in the situations in which Federal matching funds may be used and in the amounts of individual payments to be matched. The Social Security Board recommends that Federal funds under the Social Security Act be available for use under approved plans for children who are needy for any reason whatever, not merely, as at present, for those who have been deprived of parental care or support by reason of the death, absence, or incapacity of the parent. The Board also recommends elimination of the Federal maximums, under which matching Federal funds now can be used only within the limits of \$18 a month for the first child and \$12 for each additional child aided in the same home. States may and do provide larger amounts when they are able; in the latter half of 1942, total Federal funds for aid to dependent children represented only 67 cents per dollar of total State and local funds, in contrast to 99 cents for old-age assistance and 92 cents for aid to the blind. The limitation of Federal matching, however, has restricted aid to children in States which have been unable or unwilling to assume the whole cost of adequate payments; in

many instances, these are the States with only small resources and relatively large numbers of children in their population.

At the present time, matching funds may not be used in payments to needy children aged 16 and 17 unless the child is attending school regularly. The Board believes that the requirement of school attendance should be eliminated. Suitable schools for older children are lacking in some areas, and for other reasons school attendance may not be feasible or even desirable.

Under all three assistance programs a serious lack arises from the fact that matching Federal funds may not be used to meet costs of medical care given to recipients, except as such costs can be included in the monthly payment to the recipient without restriction of any part of that payment for this particular purpose. The unpredictability and unevenness of medical costs and the maximum on the amount of Federal matching, as well as the limitations of State resources, necessitate a more flexible method of meeting medical needs of persons receiving assistance. In many instances, such care might aid recipients in regaining self-support and thus lessen or obviate their need for continued assistance; about one-third of the children accepted for aid are in need because of the physical or mental incapacity of the parent, and about one-fourth of the persons receiving aid to the blind in the 20 States for which this information is available could profit by some type of medical treatment to improve or conserve vision.

The Board recommends that matching Federal funds be made available to pay medical agencies and practitioners for the costs of medical services and supplies provided for recipients of assistance. Federal reimbursement might well be based on combined costs incurred within a State for medical services to recipients under all assistance programs. If arrangements are adopted for medical services to be provided through a comprehensive social insurance system, State assistance agencies could collaborate effectively with the insurance authorities by making equitable payments so that these services would be available to assistance recipients under whatever arrangements had been developed with physicians, hospitals, and others to furnish services for the insured population.

General assistance.—General assistance is now the only financial recourse for needy incapacitated adults other than the aged and the blind and for families which depend upon marginally employable persons, whose earnings are insufficient to meet unusual strains on family income and whose rights, if any, to unemployment benefits are usually meager. It is used to meet many types of need arising from inadequacy of individual payments for the special types of assistance, gaps in the coverage of social insurance programs or inadequacy in the amount or duration of individual benefits, and risks for which there still is no insurance provision. At present, general assistance is administered by some 10,000 local units and, in considerable part, from only local resources.

Any decline in levels of employment may be expected to squeeze out the workers with the least skill and experience and hence the least likelihood of having insurance rights or savings. Wartime activities have been developed in many areas which are without local resources to meet the needs of families and individuals who would be stranded by any curtailment of these activities. Other communities which have benefited little from present economic conditions will be called upon to meet the needs of families stranded elsewhere without jobs or returning without funds to weather the period of readjustment. The present financial structure of general assistance in the United States and the legal and administrative arrangements which necessarily have been erected on this structure have proved unable to cope with demonstrated needs in many parts of the country.

The Board believes that Federal participation in general assistance, through matching Federal grants to the States under certain general conditions such as those provided for the special types of assistance, would go far toward remedying present deficiencies and toward effecting a unity and flexibility in public assistance as a whole which will be needed in coming years and the more distant future. It therefore is recommended that such grants be authorized under the Social Security Act.

THE NEED FOR PRESENT ACTION

The security of a people rests upon all measures which enable individuals to live out their lives with personal satisfaction and independence—both those which protect the integrity and progress of the Nation as a whole and those which assure individual opportunities for health, education, work, and personal freedom. The area of responsibility delegated to the Social Security Board is

a small, though basic, part of this whole. The proposals here outlined represent, in turn, a practicable minimum basis for equipping our social insurance and public assistance programs to play their part in the years just ahead.

It goes without saying that the American people prize most the security wrung from work and individual effort. Such effort and public and private action to assure the utmost expansion of work opportunities have been assumed throughout the preceding discussion as the foundation of all systematic measures for social security. These measures constitute, on the one hand, a device to aid the orderly progress of economic development and, on the other, a means of caring for economic casualties. It would be as unrealistic to assume that such casualties will be lacking in the better peace we hope to achieve after this war as it would have been to send out our armed forces without provision for the men who are wounded or become sick or disheartened under the stress of battle. As in a campaign of war, so in the campaign against insecurity it is not always possible to tell just where or when the greatest stress will come. We do know, however, the nature of the dangers which confront us and the general character of the weapons we can bring to bear against them. To fail to have such weapons in readiness is to invite needless suffering and disillusionment among the millions in our fighting forces, our factories, farms, mines, shops, and homes.

In the opinion of the Board, the present time is singularly auspicious for strengthening and extending our system of social insurance and assistance. With employment and earnings at record levels, millions of workers can and want to contribute toward making better provision for future contingencies in the form of social insurance against sickness, disability, unemployment, and old age. For many older workers, such an opportunity may not come again. The additional savings which workers could make now in the form of social insurance contributions are of particular importance, since for those who suffer the risk, the protection of insurance is far greater than that which they can make for themselves through individual savings, while all have potential protection. By creating a reservoir of future purchasing power, to be drawn upon where and when it is needed, the extension of social insurance to additional groups of workers and additional risks would add substantially to the Nation's resources for weathering the inevitable readjustments of the post-war years. At the same time, increases in insurance contributions would lessen current inflationary pressures. The adjustment to higher contribution rates on the part of employers can be made far more readily now than at any time during the past decade and more or, so far as can be foreseen, in the years just following the war. A unified social insurance system would provide a comprehensive and flexible means of coordinating policy and action in this field with other governmental measures and with national programs of business and industry in effecting the transition to peace. It would make it possible for workers and employers to underwrite future contingencies which otherwise will have to be met, in many cases, through emergency aid.

At the same time, provisions to ensure adequate assistance to persons in need are urgently required. It is not now available in all parts of our country in even this period of wartime activity, and the end of the war may find many States hard-pressed to alleviate distress in communities and among groups whose way of life is suddenly changed. The recommendations of the Board envisage, primarily, methods of helping to improve levels of assistance in States which have small economic resources and to give the assistance program a needed flexibility through Federal grants to States for general assistance. These measures, the Board believes, are a necessary adjunct to even a comprehensive and well-established social insurance system. They are the more necessary in view of the fact that, at best, a considerable part of our population has had little or no opportunity to acquire any insurance rights to cover the economic risks common among workers' families, while the post-war readjustment will bring many additional problems.

It was not until 4 years after the Social Security Act became law in 1935 that unemployment insurance was in effect in all States in the Union, and more than 4 years before the first old-age benefits were payable. Wage records had to be set up, reserves accumulated, and an administrative organization established. After some 8 years, not all States yet have all three assistance programs in operation. The process of establishing social provisions which affect the lives of millions of people is necessarily slow if progress is to be sound, well-considered, and economical. At the present time, the social security program is the richer for the past years of effort and has resources in experience, training, organization, and methods tested by actual operation. Even so, however, it will take time to effect whatever provision the Congress finds desirable to

correct past deficiencies and strengthen the program to meet future stresses. Whether one believes that the war will end in one year or five, the time in which to build a stronger system of social security is short in view of the character of the changes and readjustments we confront as individuals and as a people.

EXHIBIT No. 13

WARTIME SAVINGS—THEIR MAGNITUDE AND IMPLICATIONS

(Dr. Amos Taylor, Director, Bureau of Foreign and Domestic Commerce,
Department of Commerce)

In any year the net additions to savings of individuals are equal to the amount by which their money incomes after taxes exceed their purchases of consumers goods and services. Correspondingly, the net additions to the savings of corporations are equal to the amount by which their gross sales exceed their purchases of goods and services, including purchases of capital goods. The total additions to nongovernmental savings are equal in any year to the difference between total private income and total private purchases of goods and services—or the amount of unspent income which individuals and nonfinancial corporations carry forward from the year's operations.

The total income from the sale of all goods and services accrues to one of three groups. It goes to individuals in income payments, to the Government in taxes, or it is retained by corporations in depreciation, other reserves, and undistributed profits. Since the total purchases of goods and services are necessarily equal to total sales, if Government purchases of goods and services exceed Government revenue, the incomes of individuals and corporations—taken collectively—must necessarily exceed their purchases.

During the war the combined Federal, State, and local Governments are spending much more for goods and services than they are obtaining in revenue. To put it another way, they are making greater payments into gross incomes of individuals and corporations than they are taking out in the form of taxes. The net difference between total Government purchases of currently produced goods and services and total revenues accruing to Government is necessarily equal to the amount by which the incomes of other groups in the economy exceed their total purchases—or to the net additions made by the other groups to their accumulated savings.

By way of clarification consider how a Government deficit increases the accumulated savings of individuals and corporations. When the Federal Government, for example, sells a bond to individuals and corporations, these economic units transfer existing cash balances to the Federal Government. When, in turn, the Federal Government spends the proceeds from these bond sales for goods and services, the balances are again transferred to individuals and corporations. At the end of the process then, individuals and corporations—as a group—hold as much cash as they did before and, in addition, hold the newly created Government securities. They have, in other words, added to their accumulated savings.

Similarly, when the Government sells bonds to commercial banks, additional deposits are created. When these deposits are spent by the Federal Government there is a net increase in the amount of "money"—either bank deposits or currency—held by individuals and corporations, or in their accumulated savings.

In contrast, when the Federal Government finances its purchases by taxes, there is no increase in private holdings of liquid assets. When taxes are paid, individuals and corporations transfer cash balances to the Government. When the Government, in turn, spends the proceeds of these taxes on goods and services, the cash balances of individuals and corporations—taken together—are simply restored to their former level.

It follows as a corollary, that the total increase in the accumulated savings of the various groups in the economy can be derived from a statement of the amount by which governmental purchases exceed governmental revenue. Attention is, therefore, directed to table I, in which such a statement is presented.

Starting with the net budget deficit of the Federal Government it is possible by adding the net expenditures of government corporations and by subtracting (a) State and local government surplus, (b) net excess of payments into social security funds, (c) net increase in business taxes accrued but not paid, and (d) Government payments for existing assets—and hence not adding to current

income—to obtain a statement of the amount by which total Government purchases—for payments into private income—exceed total Government revenues—or withdrawals from private income. The differences in any year is equal to the unspent income of individuals and corporations including residents of foreign countries selling goods and services in the United States. Or to put it another way, the difference is equal to the net additions to the accumulated savings of these three groups.

How large are private savings?

As is evident from an examination of table I, the total additions to the accumulated savings of these three groups during the 3 years 1942, 1943, and 1944 will be over \$120,000,000,000. The longer the war continues, given no changes in Federal Government tax policy, the larger these accumulations will be.

The portion of this total assigned to individuals is given by the following statement of the income of individuals after taxes and consumer expenditures for the years 1942, 1943, and 1944—estimated. As is evident individuals—including unincorporated businesses—are estimated to have spent \$95,000,000,000 less during these 3 years than they received as income.

	1942	1943	1944, estimated	Total
	<i>Billions</i>	<i>Billions</i>	<i>Billions</i>	<i>Billions</i>
Disposable income of individuals.....	\$110	\$124	\$130	\$364
Consumer expenditures.....	82	91	96	269
Net savings of individuals.....	28	33	34	95

The portion of the total assigned to residents of foreign countries selling goods and services to the United States is equal to the amount by which our purchases of goods and services from abroad exceed our sales of goods and services abroad—excluding shipments on Government account. In view of the fact that during the war our exports have been limited by the unavailability of goods while imports have been increased to provide a larger volume of industrial raw materials, these nonresidents have added about \$4,000,000,000 to their net claims against the United States economy.

The balance of \$29,000,000,000 represents the estimated additions to the accumulated savings of nonfinancial corporations during the 3 years ending December 31, 1944. Or, to put it another way, the \$29,000,000,000 represents the gross savings of nonfinancial corporations—undistributed profits plus depreciation, depletion, and other business reserves—not used for capital outlays on such items as inventories, plant, and equipment.

In what form are these savings held?

For the most part the additions to the accumulated savings of the three groups have taken the form of increased holdings of currency, bank deposits, and United States Government bonds.

Approximately 82 billions out of the estimated 95 billions of individual savings are held in the form of these highly liquid assets. (See table II.) Although the estimates are only approximate for the year 1944, it would appear that about half of this 82-billion-dollar increase in liquid asset holdings consists of increases in money holdings and about half consists of increases in United States Government bond holdings, largely series E, F, and G. The non-liquid balance of 13 billions represents savings which have been used largely to improve the net debtor-creditor position of individuals. About 4 billions, for example, have been used to pay off consumer debt held largely by financial corporations. Likewise another 8 billions have been used to increase claims of individuals against insurance companies.

Similarly, the major part of the additions to the accumulated savings of non-financial corporations consists of additions to their holdings of money and United States Government bonds. After subtracting an increase of approximately \$9,000,000,000 in the net business tax accruals, the estimated increase in the net liquid asset holdings of nonfinancial corporations is approximately \$28,000,000,000 for the 3 years ending December 31, 1944. The balance of approximately \$1,000,000,000 represents the estimated improvement in the net debtor-creditor position of nonfinancial corporations.

There is also evidence that the bulk of the additions to the accumulated savings of nonresidents is held in liquid form. Much of it is held in the form of

earmarked gold, foreign balances and securities. Altogether, therefore, it may be concluded that the major part of the additions to accumulated savings of individuals, corporations, and nonresidents is in highly liquid form, consisting largely of cash and bond holdings.

Post-war implications of individual savings.

Never before 1941 did the annual additions to the savings of individuals exceed \$10,000,000,000. In fact, the average for the previous decade was less than \$5,000,000,000. In contrast, the \$95,000,000,000 addition during the 3 years, 1942-44, to accumulated savings of individuals is larger than the total incomes of individuals in the best pre-war years. Moreover, the \$82,000,000,000 addition to individual holdings of liquid assets during these 3 years is about three times as large as the corresponding addition to the liquid asset holdings of both individuals and corporations during the 2-year period, April 1917 to June 1919, including all of World War I.

As was pointed out above, these additions to accumulated savings represent unspent income which individuals are carrying forward into the post-war period. It would be a mistake, however, to assume that, on balance, any large part of these savings will be spent once the war is over.

Of the estimated \$82,000,000,000 increase in individual holdings of currency, bank deposits and United States Government bonds as much as 15 billions may have been added to the holdings of unincorporated business and might better, therefore, be classified as an addition to business savings. Little is known about the distribution of the remaining 67 billions. Because of wartime income-tax rates, the bulk of the 67 billions must have been accumulated by individuals having incomes of less than \$10,000 a year. Probably the bulk of it has been saved by those with incomes over \$2,000. There are no satisfactory data on the distribution by income classes within this range.

While a portion of these liquid assets has undoubtedly been earmarked for the purchase of specific goods and services when they are again available, there is some evidence that the major part has not been so earmarked. Rather it would seem probable that the major part has been accumulated both for protection against the proverbial "rainy day" and for patriotic reasons.

The decisions of consumers as to the disposition of these liquid assets after the war will be inextricably linked with their decisions as to how they will spend their post-war incomes. On balance, it is quite unlikely that there will be any net reduction in consumer holdings of these assets. Continued accumulations out of post-war income will offset the expenditures and of wartime accumulations. The significance of the wartime accumulations is chiefly as a factor affecting the expenditure decisions of consumers rather than as a net source of funds to finance a post-war boom.

Other factors also have an important bearing on these expenditure decisions. Much depends, for example, on the ease with which the transition from war to peace is made. If, on the one hand, there is considerable unemployment and loss of income, the resulting feeling of insecurity may cause individuals to place a high value on unspent income as a protection against future contingencies.

If, on the other hand, there is less unemployment and loss of income during the transition than is generally anticipated, individuals may consider their accumulated savings to be a more adequate backlog against the uncertainties of the future. In this case, wartime accumulations of liquid assets could, by inducing individuals to spend a larger portion of their post-war incomes, do much to sustain a high level of employment and income in the post-war period.

Implications of corporate and nonresident accumulations.

Similarly, the \$29,000,000,000 added to the accumulated savings of corporations during the 3 years, 1942-44, can under favorable conditions do much to sustain the post-war economy. In fact, if this amount, in addition to the funds available from then current reserves and undistributed profits, should actually be spent within a 2-year period it would exert a strong pressure toward a capacity national output. It might even lead to inflation.

Such a rate of expenditure is quite unlikely. Although the availability of these corporate funds is undoubtedly a favorable—and may in some cases be the deciding—factor in causing producers to make post-war capital outlays, other factors are equally important. The volume of capital outlays will reflect the rate of technological change, the development of important new industries, and opportunities for foreign investment.

Also, if producers, like consumers, are convinced of the insecurity and uncertainties of the future, they may place a high value on the liquidity provided by these accumulations. Were this to occur, producers would undoubtedly hes-

itate to use their accumulated savings to finance an expansion of their operations. Again it may be noted that these savings although important, do not necessarily guarantee a large volume of capital investment in the post-war period.

Whether the additions to the accumulated savings of nonresidents will be used in the post-war period to finance a net export of goods and services to foreigners depends to a considerable extent upon post-war foreign trade policies of the countries involved. In view, however, of the foreign need for goods and services in the post-war, the expenditure of a substantial part of the estimated 4 billions accumulated during 1942, 1943, and 1944 on goods and services produced in the United States would seem quite probable.

CONCLUSION

During the 3 years ending December 31, 1944, the additions to the accumulated savings of (a) individuals, (b) corporations, and (c) nonresidents engaging in trade with the United States have been very large, totaling 95, 29, and 4 billions of dollars, respectively. These accumulated savings, consisting largely of increased holding of currency, bank deposits, and United States Government bonds, will not disappear in the immediate post-war period, but will continue in existence until the Government debt which created these savings is paid off.

These savings have increased the liquidity of various groups in the economy. Yet it is impossible to state unequivocally that these savings will serve to sustain the level of income and employment in the post-war period. Much depends upon the factors which affect the community's evaluation of liquidity.

If both consumers and producers are confident of the future, these large holdings of liquid assets may do much to increase the over-all volume of consumer and producer expenditures. In fact, if all groups in the economy try to spend their savings at the same time, it is conceivable that these accumulations might lead to serious inflationary pressures in the post-war period.

If, however, both consumers and producers are impressed in the immediate post-war period with the insecurity and uncertainties of the future, they may place a high value on liquidity afforded by these savings. Were this to occur, the large volume of savings accumulated during the war would not assure a satisfactory level of income and employment in the post-war period.

Hence, the most that can be said in appraising the effect of these large wartime accumulations on the expenditure decisions of consumers and producers is that it is one of the favorable factors. The favorable effect of these savings can easily be offset by unfavorable factors. They do not guarantee post-war prosperity.

TABLE I.—*Estimated source and distribution of additions to accumulated savings, calendar years, 1942 to 1944, inclusive*

[Billions of dollars]

	1942	1943	1944, estimated	Total
Net budget deficit of Federal Government ¹	39.6	53.5	55.0	148.1
Add: Net expenditures of Federal Government corporations ¹	+3.6	+2.4	+2.4	+8.4
Deduct:				
State and local government surplus ¹	-1.9	-2.1	-2.5	-6.5
Net excess of payments into social security funds ¹	-2.1	-2.9	-3.3	-8.3
Net increase in business taxes accrued but not paid ¹	-4.6	-2.8	-2.0	-9.4
Government payments for existing assets and therefore, not requiring saving ¹	-2.8	-.2	-1.0	-4.0
Amount by which total Government purchases of goods and services (payments into private income) exceed total revenue accruing to Government.....	31.8	47.9	48.6	128.3
Net changes in accumulated savings of—				
Individuals (excluding unexpended reserves of unincorporated business, but including unexpended undistributed profits of financial corporations) ¹	28.0	33.0	34.0	95.0
Nonfinancial corporations (including unexpended reserves of unincorporated business) ²	3.6	12.9	12.6	29.1
Residents of foreign countries selling goods and services in the United States ¹.....	.2	2.0	2.0	4.2
Total additions to accumulated savings.....	31.8	47.9	48.6	128.3

¹Source: Survey of Current Business, April 1944, p. 11.

²Source: Derived by subtracting savings of individuals and nonresidents from total private savings.

TABLE II.—*Estimated disposition of individual savings, calendar years 1942 to 1944, inclusive*

[Billions of dollars]

	1942	1943	1944 (estimated)	Total
Increased holdings of currency and bank deposits ¹	11.5	15.8	15.0	42.3
Increased holdings of U. S. Government bonds ¹	9.9	13.8	16.0	39.7
Savings committed to highly liquid assets.....	21.4	29.6	31.0	82.0
Liquidation of consumer purchase debt to corporations ¹	2.8	.8	.0	3.6
Increased equity in private insurance ¹	2.4	2.7	2.7	7.8
Increased equity in nonfarm dwellings ¹	1.5	1.1	1.1	3.7
Increased equity in savings and loan associations ¹.....	.3	.6	.6	1.5
Increased holdings of State, local government, and corporate securities ¹.....	.2	-.3	-.5	-.6
Adjustment for discrepancies ²	-.6	-1.5	-.9	-3.0
Savings committed to nonliquid uses.....	6.6	3.4	3.0	13.0
Total increases in the accumulated savings of individuals.....	28.0	33.0	34.0	95.0

¹ Source: Securities and Exchange Commission.² Adjustment necessary to account for the difference between Department of Commerce estimate of individual savings and Securities and Exchange Commission estimate of individual savings.TABLE III.—*Estimated disposition of nonfinancial corporate savings after deducting capital outlays, calendar years 1942 to 1944, inclusive*

[Includes a small amount of unexpended reserves of unincorporated business]

[Billions of dollars]

	1942	1943	1944, estimated	Total
Increased holdings of currency and bank deposits ¹	3.3	13.1	14.1	38.1
Increased holdings of U. S. Government bonds.....	6.3			
Savings committed to highly liquid assets.....	9.9	13.1	14.1	38.1
Less increase in net business tax accruals ²	4.6	2.8	2.0	9.4
Increase in net liquid assets.....	+5.3	+10.3	+12.1	+27.7
Changes in the net claims of nonfinancial corporations ³	-1.7	+2.6	+ .5	+1.4
Total increases in accumulated savings of nonfinancial corporations (see table I).....	+3.6	+12.9	+12.6	+29.1

¹ Source: Securities and Exchange Commission for 1942 figures; 1943 figures estimated on the basis of the first 3 quarters' figures.² Source: Survey of Current Business, April 1944, p. 11.³ Represents increases in receivables and security holdings less increases in payables and outstanding securities. Obtained by subtracting increases in net liquid assets from changes in accumulated savings of nonfinancial corporations.

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