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THE SEARCH FOR SOCIAL SECURITY

by

Kenneth Fowell

B. A., Montana State University,
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Approved:

Paul Phelps

Chairman of Board
of Examiners.

W. G. Bateman

Chairman of Committee
on Graduate Study

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THE SEARCH FOR SOCIAL SECURITY

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CHAPTER I
INTRODUCTION

The Meaning of Social Security.

When a complete or final history of the search for social security is written, it is likely that the third decade of the twentieth century will be regarded as the most fundamental period of the entire movement. It is true that the movement was old and established in many parts of the world before this fruitful era, it may even be true that other periods will be far more fraught with accomplishment than this one. Nevertheless there are certain phenomena that have developed within this period that mark it as unique. These phenomena are the development, under the economic pressure of the depression, of a great number of cure-alls for the economic ills of man; and, what is likely to be more important in the long run, the achievement of respectability of the social security movement on this side of the Atlantic.

Both of these things have a great measure of importance in their effect upon the modern movement for social security. Of course such characteristic third decade movements as EPIC, Social Credit, and the Townsend Plan are certainly not the first panaceas ever evolved to cure the economic and social misery of mankind, yet they are in a measure unique. The pages of history are by no means barren of other plans which are more or less like these in the fact that they

represent a protest against the prevailing system and show, perhaps, the victims of our system blindly beating their heads against the blank wall of the status quo but living on the hope that somehow their protest would be heard and that conditions would be better as a result. Again these plans are not new in that they demand fundamental changes in the political as well as the economic organization of the state. Almost all such plans make the same demand. They are new and different, however, in the seeming universality - at least for a time - of their appeal and the political strength which they have been able to gather behind them - in spite of the fact that most of their programs are financially and economically impossible. Since these various programs have taken hold of the imagination of the people and since they still command a rather powerful political following, any study of the social security movement in our times must include them.

The importance of the other phenomenon, the respectability of the social security movement in general, can not be over-emphasized. In the hectic twenties, it smacked of treason to suggest that anything could be wrong with the system as it existed and that there was any need for any social security program other than the one that each individual should deem wise or expedient to provide for himself as best he might. Thus the entire movement was felt to be the

property of a few wild-eyed reds and pinko-philosophers who were at best on the outer edges of respectability. The depression then has at least given dignity as well as universal appeal to those men and organizations who have for years "fought the long fight" under a slight cloud, or at least under the suspicion of being wanting in patriotism. In fact, one of the most effective arguments used against the social security movement in the United States has been the plea that the whole movement is "Un-American" and represents a "blind imitation of European remedies" which do not fit the conditions of American life at all.¹ It has taken the events of the past few years to show us that perhaps American arrogance could benefit from the experience of Europe.

We have then, at the present time, many distinct and seemingly unrelated movements in the United States and Canada all aiming at the same goal - the thing which we call social security. All differ, perhaps, as to just what is to be done, what the exact program should be, and as to just what constitutes security. However they are all begotten of the fact that insecurity, misery, and general helplessness in the face of economic uncertainty do exist, and in one way or another all seek to reduce these things to a minimum.

1. I. M. Rubinow, Standards of Health Insurance (New York, 1916), p. 11.

Just what is meant then by social security? To the Townsendite, it has come to mean a gratuitous pension of \$200.00 a month to be spent within thirty days; to the relief worker it may mean enough to eat and a place to sleep (for his "clients", not for himself); to the insurance man it means the maintenance of income;² to the unemployed workman, it may mean - as has been so often and platitudinously stated - "a job not a dole".³ In its superficial aspects, at least, social security may mean a great many things. Nevertheless it should be possible to arrive at some conclusion which would express the desires of all classes.

I. M. Rubinow in his book, The Quest for Security, comes very close to the core of the meaning of social security when he discusses the hypothetical "American standard of living":

"Enough food, fuel, clothing, and shelter represents the physiological standard. To this right of existence American democracy adds; the right of enjoyment of life. That means food, fuel, clothing, and shelter not only sufficient in quantity, but also of sufficiently high quality to make the enjoyment of these goods possible. It means opportunity for comfort, recreation, education. It means also opportunity for participation in the life of the group. In short it means opportunity to enjoy life."⁴

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2. Carrol C. Day, A Philosophy of Living, (Milwaukee, 1934), p. 12.
 3. I. M. Rubinow, The Quest for Security, (New York, 1934), p. 356.
 4. *Ibid.*, p. 8.

Proceeding from this as a base, we may agree upon some of the necessary elements of security under our present system. First of all, to a great majority of our population security will mean a job - since the day of the preponderance of the individual entrepreneur in America seems to have passed with the frontier. Possession of a job must mean the possession of a steady income sufficient to provide more than the ordinary expenses of life. It is not enough to provide a bare living under normal circumstances. Before there can be any real feeling of security, income must be sufficient to provide a reserve to take care of possible sickness or accident, and to provide for old age. Further there must be reasonable assurance that the job will last, or that if it does not some provision for the period of unemployment will be made. In short, there can be no feeling of security unless there is assurance of protection - thru the size of the income or otherwise from the disasters of sickness, accident, old-age, unemployment, and death of the wage earner. This would seem to be a large order to be placed upon the income of the worker, but anything less than this minimum is not social security. If this assurance can not be gained from the income of the individual, then there must be some other machinery to provide the assurance or security does not exist. It seems to be a pretty well established fact that the income of the individual is not

able to meet all these strains, and for that reason this study of the search for social security by other means is being made.

The Need for a Social Security Program Before 1929.

During the days of depression and even in this period which we have called recovery (with heaven only knows how many men still unemployed), it is customary to look back upon the period 1922--1929 with much the same reverence felt by ancient knights in search of the Holy Grail. "There was a time," we are fond of saying as we think back upon those days of the "new economic era", the days when the land was flowing with milk and honey, when there was a "car in every garage and a chicken in every pot," when all of us had more money than we knew what to do with. Surely in those days there was no suffering, no necessity of relief, no need of a comprehensive plan for social security. We are in for a distinct surprise when we put aside the rose-colored glasses and survey conditions in the "prosperous twenties" as they really were.

One of the greatest sources of pride and satisfaction to Americans generally during the "prosperity era" was the high wage scale prevailing in this country during that period. It is true that during this period an unprecedented thing happened - prices did not rise as rapidly as wages, so

that by the end of the decade real wages had actually increased in terms of purchasing power.⁵ In the light of this fact, we readily believed such optimistic statements as the idea proclaimed by a prominent Harvard professor in 1925:

"... Just what is going on in this country at the present time? Wealth is not only increasing at a rapid rate, but the wages of those we formerly pitied are rising, laborers are becoming capitalists, and prosperity is becoming more and more widely diffused. We are approaching equality of prosperity more rapidly than most people realize... We are on our way to becoming a nation of capitalists."⁶

Near the end of the decade, 1928, a banker, Mr. Lewis E. Pierson, chairman of the board of the American Exchange - Irving Trust Company, declared in an interview:

"The people of America have more money than they know what to do with.... Nearly everybody in America has more money than he needs to live... There are more millionaires than ever before, but there are fewer beggars... It did come suddenly. A dozen years ago we were comparatively poor. Many of us, individually, were actually poor, in distress and want. Today, in America, poverty in the true sense is practically unknown... Everybody has money. It is the commonest thing there is. You have it; your neighbors have it - more money than you ever had before."⁷

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5. Abraham Epstein, Insecurity a Challenge to America, 3rd edition, (New York, 1936), p. 97.
 6. T. N. Carver, The Present Economic Revolution in the United States, 1925; quoted in Epstein, op. cit., p. 82-83.
 7. Epstein, op. cit., p. 93.

Statements of this kind confronted us in almost every paper and magazine that we picked up. It became almost a religion with us that our economic structure was certainly a wage-earner's paradise. What then were the true facts concerning wages in this era of unprecedented prosperity?

A study of 44 budget estimates - made by such groups as the U. S. Bureau of Labor Statistics, the National Industrial Conference Board (a leading employers' association), and the California Civil Service Commission, to mention a few of the foremost groups conducting this work - and a comparison of the needs of the average working man's family, as indicated by these estimates, with the actual income of these same families reveals some startling things. These budget estimates were made over the years 1920-1932, and the average annual earnings of wage-workers for the same years have been determined for purposes of comparison. In the case of both the budget estimates and the computation of average income there may be variation from the figures reached, of course. It is natural that family needs should vary and that there should be differences according to section of the country considered. Nevertheless the comparisons and the figures reached can be accepted as being very close to average general conditions. It is scarcely necessary here to quote all the figures and tables considered;

the conclusions reached should be sufficient. These are significant: when the average actual earnings in all industries are compared with the minimum needs as determined by the budget estimates, it is seen that in no year in the period from 1920-28 did earnings equal 70 percent of requirements; in only three years (1920, 1926, 1927) did earnings reach more than 65 per cent of the minimum; while in three more years (1923, 1924, 1925) they were between 60 and 65 per cent. In the depression years of 1921 and 1922 earnings were only 54 and 56 per cent respectively of the amounts needed for the decent support of a family.⁸

In the light of this knowledge it is easy to agree with Mr. Epstein that:

"It is safe to conclude as a result of this study that in the last decade only very few of our workers have earned enough to maintain for themselves and their families a decent American standard of living. Their average yearly earnings have in general fallen short, even in good times, and during depressions have rarely exceeded one-half, of the necessary amounts. They have rarely been able to meet fully the day-by-day expenses of decent living, let alone laying aside any savings against rainy days."⁹

But we are loath to have our dream so rudely shattered, and we reply, "But everyone did have work during the prosperous twenties; that is, everyone who wanted to work. Even

8. Abraham Epstein, Insecurity a Challenge to America, 3rd Edition, (New York), 1936), p. 97-101.

9. Ibid., p. 102.

if wages were not so high as we thought they were, there was at least no unemployment problem." Let us now investigate that belief a little more closely.

Investigation almost immediately reveals that "unemployment is a chronic ill of the present industrial system, instead of being merely a temporary maladjustment. It persists in good times as well as bad."¹⁰ In 1922 the National Industrial Conference Board estimated that about 14 per cent or 1,800,000 workers in the manufacturing and mechanical industries were unemployed. In June, 1921, the proportion of unemployed was as high as 25 per cent.¹¹ The study of unemployment in the non-agricultural pursuits made by Dr. Leo Wolman for the Committee on Recent Economic Changes shows some interesting things concerning the minimum unemployment during the years 1920 to 1927. His study shows that even in 1920, the year of maximum peace-time employment, the minimum number of unemployed was 1,401,000 and in no following year did it fall below that number. By 1927 the minimum number of unemployed had risen to the figure of 2,055,000.¹² In April, 1929, before the Wall Street crash,

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10. Abraham Epstein, Insecurity a Challenge to America, 3rd Edition., (New York, 1936), p. 191.
11. National Industrial Conference Board, The Unemployment Problem, Research Report #43, Nov. 1921, p. 34; quoted in Epstein, op. cit., p. 192.
12. Leo Wolman in Recent Economic Changes, 1929, p. 478; quoted in Epstein, op. cit., p. 192.

a study made in Philadelphia found 10.4 per cent of the wage-earners idle in the families surveyed. Three-fourths of these were unemployed due to the fact that they were unable to find work of any kind.¹³

Even though we are now and always have been in the United States lacking in any completely thorough and reliable figures on unemployment, the items quoted above should be sufficient to show that the specter of unemployment was constantly before the working man even in our most prosperous times. The myth that the working man could care for himself through his savings, his insurance, his stock purchases in the company for which he worked, or that he would be cared for by company welfare plans or by private philanthropy in case of unexpected developments has been ably exploded by Mr. Abraham Epstein in his recent book, Insecurity a Challenge to America.¹⁴ In short, the American people deluded themselves concerning their prosperity and their security during the entire decade of the "prosperous twenties" and they have clung to the illusion since. We have simply tried to approach the actual realities of the situation in the material considered thus far.

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13. U. S. Bureau of Labor Statistics, Social and Economic Character of Unemployment in Philadelphia, April, 1929, Bulletin #520, p. 17; quoted in Epstein, op. cit., p. 193.
14. Abraham Epstein, Insecurity a Challenge to America, 3rd Edition, (New York), 1936, p. 103-105.

To sum up the matter as far as we've gone: the thing the average citizen desires more than anything else in this life is a feeling of security for himself and family. Thus far in our national life we have never reached the point where the great mass of the population could reasonably be expected to have that feeling. Even in the periods known to us as "good times" the working classes have not had a sufficient share of our national prosperity to place them among the reasonably secure. The question to be answered then is: How can real social security be achieved, or at least how can insecurity be reduced to a minimum? It is the purpose of this work to present some of the answers that have been offered to this all-important question.

CHAPTER II

THE GREAT DEPRESSION AND SOCIAL SECURITY

Changed Attitudes

With the coming of the depression there began to be a distinct change in the smug attitude with which the pleas for the necessity of a well-balanced social security program had always been regarded in this country. It did not take very many months of unemployment, distress, and suffering among the great mass of the wage-earners to shake their faith in the assertion that this was the "best of all possible worlds", nor to convince them that as far as they personally were concerned it was even doubtful that "American economy is essentially sound."

Nevertheless, we did have a determined effort on the part of many of our financial and political leaders to avoid the facts - clear and indisputable as they were. In fact, the days toward the close of the Hoover administration have been aptly termed the "ostrich era" due to the deliberate attempt of our economic and political leadership to close the people's eyes to the tragic seriousness of the situation, and to cure the evil effects of depression by a policy of Pollyanna propaganda.¹⁵

While it soon became apparent that the depression was primarily a wage-earner's depression, it became equally

15. I. M. Rubinow, The Quest for Security, (New York, 1934), p. 325.

apparent that it was not limited to him. In spite of all our efforts to ignore the presence of the catastrophe, every class in our economic organization began to feel its effects. The number of incomes which amounted to over a million dollars a year (there were over 500 in 1929) decreased alarmingly, great fortunes disappeared, the proceeds of the Federal income tax decreased by two-thirds in spite of several increases in the tax rate.¹⁶ By 1930 over one-half the active corporations reporting for income tax showed deficits instead of profits, and in 1931 the corporations of the country as a whole lost nearly three billion dollars.¹⁷ Banks and businesses failed, the bottom dropped out of the stock and bond market, even real estate often proved to be more of a liability than an asset. Foreclosures and the failure of building and loan associations became common.¹⁸ Thus it became apparent that the individual savings, investments, and the property owned were not sufficient to provide real security during this time of economic stress.

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16. I. M. Rubinow, The Quest for Security, (New York, 1934), p. 321-322.
17. U. S. Treasury Department, Preliminary Report, Statistics of Income for 1931, p. 12; quoted in Epstein, op. cit., p. 13.
18. Abraham Epstein, Insecurity a Challenge to America, 3rd Edition, (New York, 1936), p. 14-17.

If savings, investments, and the like failed to weather the storm, what did the job do to provide security for the individual? The ordinary worker to the number of some ten to fifteen million found that unemployment was a very real thing at the time when he needed a job most. However, unemployment was not confined to the masses alone by any means. Even the heads of large corporations found that they had no security in their jobs. Job agencies during depression were overcrowded with former high-paid executives and vice-presidents looking for any sort of work.¹⁹ In short, there was security only for the comparatively few of the very wealthy. Our economic structure soon found itself divided into three groups; at one extreme a minority which was able to go on leading a life which was substantially unchanged from that of normal times; at the other extreme, a much larger minority in a condition of distress and destitution; and the majority in between still capable of keeping up a fairly normal standard and doing so, but doing it under the shadow of the constant danger that they at any time might drift into the class of the economically discarded.²⁰

What happened to the much vaunted American standard of living under these conditions scarcely need be mentioned. With the stark fact of insecurity at last admitted by all classes, we still had a few attempts to explain the situation

19. Epstein, op. cit. p. 13.

20. Rubinow, op. cit. p. 326-327.

by such statements as the fact that the depression was a world-wide slump for which no one was responsible. Knowledge of this fact was but cold satisfaction in the light of the knowledge that our nation which had so long had the blessings of "rugged individualism" was apparently suffering more than the nations of Europe with their "un-American" plans of providing at least a minimum of social security. As stated by Mr. Abraham Epstein:

"...Although the United States is the most self-sustaining of all industrial nations, and the last to be hit by the depression, it has descended to the lowest depths of unemployment and distress in the shortest space of time. All available information confirms the fact that the percentage of unemployed is higher in the United States than in any other nation. It even exceeds that of Germany, despite the fact that we have been spared the devastations of war, revolution, blockade, reparations and dictatorship. Especially significant is the contrast between the United States and Great Britain... Despite all our advantages, the percentage of industrial unemployment in the United States has been practically double the British peak during the entire fourth year of the depression and shows no signs of diminishing."²¹

The most confusing thing about the entire situation to the average American was the fact that insecurity and misery were prevalent to a degree never before experienced not as a result of revolution, famine, or war, but at a time when our country was surfeited with food and goods.²² We were

21. Abraham Epstein, Insecurity a Challenge to America, 3rd Edition, (New York, 1936), p. 657.

22. Ibid.

starving because we had too much food; we were in rags because our industries had produced too much clothing. The incidence of misery and want in a land of plenty didn't make sense. In the popular mind there was a serious question as to why insecurity should be rampant when the elements of security were present in an over-abundance.

From this state of confusion several distinct gains in the search for social security were achieved in the form of some definite ideas which gradually took hold of the popular mind and changed the attitude of all classes. First, we ceased to regard our leading bankers, industrialists, and successful business men of normal times as supermen or demi-gods, and when they spoke we no longer believed that we were listening to the voice of authority and wisdom. These leaders had not only been unable to foresee the coming of disaster, but they had been unable to provide any plan to halt its continuous and progressive descent. The only cure they could imagine was that provided by systematically ignoring the fact that there was anything wrong, or to attempt to soothe everyone by radiating optimism.²³

The second gain came in the realization by the men in positions of economic leadership that there "can be no well-being for any society, whether it be capitalist or communist,

23. Abraham Epstein, Insecurity a Challenge to America, 3rd Edition, (New York, 1936), p. 659-661.

without economic mass security."²⁴ The wealthy classes finally realized that regardless of whatever mysterious world causes there might be for the stoppage of industry and the fall in wholesale and retail prices, that the shrinkage of demand from an increasing army of unemployed was at least a contributory cause. It was easy to realize, then, that this lowered ability to consume upon the part of the masses and the resultant falling prices meant the disappearance of profits in trade and manufacture, shrinkage of professional incomes and of rental incomes and real estate values, and ruin for agriculture.²⁵ It was this realization that has prompted statements like the following from American business leaders:

"My studies, as you know, have forced me to conclude that there can never again be lasting, nationwide prosperity until business in general is organized to pay such higher wages that the masses of wage earners will be able to buy enough of our industrial products to give industry an adequate market... If I am wrong in that conclusion, however, I want to know it, and if I am right I believe that business men generally will want to know it."²⁶

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24. Abraham Epstein, Insecurity a Challenge to America, 3rd Edition, (New York, 1936), p. 665.
25. I. M. Rubinow, The Quest for Security, (New York, 1934), p. 324.
26. Edward Albert Filene, in an open letter to the United States Chamber of Commerce; quoted in Time, June 8, 1936.

A mere loss of confidence in old leaders and a realization that security for the masses is a prerequisite to universal prosperity would not alone have provided the basis for what has happened in the past few years. The third great gain was the demand that something be done about the situation. There was a demand for real action from all sides. From youth came ominous rumblings: "Our characters have been ruined by idleness... we have less than full faith in the American system;" "We have clenched our fists against our elders and our rulers;" "Youth will fight unless something is done. We're not going to starve to death just because we were born at an unfortunate moment."²⁷ From the aged, the unemployed, the middle classes and the wealthy there was a concerted demand for a plan, for action of some kind, that would prevent a further descent into the depths of depression. This restless, seeking force was demonstrated amply in 1932 when the people turned out the administration which they had come to identify with the depression, and swept the New Deal into office with the mandate to do something. Almost over night the search for social security had come to be identified with the attempt to end the depression, and the social security movement had at last achieved respectability. It was no longer the property of a few social workers and university professors; it was common property. This

27. Letters to Letters; quoted in Time, June 8, 1936.

complete change in attitude, so quickly, made social security a fad, and carried with it the dangers which always result from fadism. As a result we find the movement for security now complicated by countless fads and nostrums, some of the most important of which we shall review in this and the next three chapters.

Minor Nostrums and Panaceas.

From the beginning of the depression countless schemes to bring an end to this economic catastrophe - and to furnish some measure of social security for the future - were evolved. These varied from President Hoover's attempt to prevent unemployment through a gentlemen's agreement with business to all manner of plans calling for drastic changes in our political and economic structure. Many of them found an early grave in the waste basket of some editor or public official, while others - due either to their seeming reasonableness or the color of their leading proponents - enjoyed for a time a wide public appeal.

Of all the early plans propounded to end the depression and provide security, Technocracy took the firmest hold on the popular imagination. In 1932, shortly after this newest of panaceas had been announced, the Literary Digest was able to say:

"Technocracy is all the rage. All over the country it is being talked about, explained, wondered at, praised, damned."²⁸

28. Literary Digest, Dec. 31, 1932, p. 5.

According to Howard Scott, former engineer and technician for the Muscle Shoals Project and the moving spirit and leading prophet of the movement, the group responsible for the foundation of Technocracy was organized in 1920. The original group included the late Charles Steinmetz, electrical engineer of note, Thorstein Veblen, radical economist, Dr. Richard Tolman, Director of the California Institute of Technology, and other technologists of prominence. From 1931 through 1932 the headquarters of the group was the campus of Columbia University in New York. Here, under the direction of Scott, a group of engineers - recruited mainly from the ranks of the unemployed - worked on the main project of the movement, known as the Energy Survey of North America. The entire system proposed was based upon Scott's highly involved and complex "Theory of Energy Determinants."²⁹ Scott, in turn, probably depended for the basic elements of his theories upon the writings of Thorsten Veblen and F. H. Soddy, a British scientist.³⁰

The major tenets of Technocracy were threefold. First

29. Wayne W. Parrish, What is Technocracy, in New Outlook, Nov. 1932, p. 13-18.

30. Allen Raymond, Technocracy Offers a Cure, in Current History, Feb. 1933, p. 525-531.

was the contention that wealth is the product of energy, human or mechanical, and that wealth should be measured in terms of energy units and not in terms of other commodities. Second, the human element in the production of goods has become, due to the machine age, of steadily decreasing importance, with the result that the actual share in production is no longer a just measure of human rights to consume the products of industry. Third, the price system has become obsolete. Such a burden of debt has been accumulated that it is crushing society, preventing "industry from working continuously at anything like capacity and preventing the public generally from consuming what people could easily obtain if the debt were invalidated and 'energy' money substituted for the currency of gold and silver."³¹

Elaborating upon their second postulate, the Technocrats predicted 25 million unemployed by 1934 and gave figures to show that the nation's industries could never again be expected to absorb our great army of unemployed. They concluded, with indisputable logic, that as the machine improves we come nearer and nearer to the elimination of all human employment. The fundamental causes of the depression, therefore, were not political but technological, since

31. Allen Raymond, Technocracy Offers a Cure, in Current History, Feb. 1933, p. 525 - 531.

technology has advanced to the point where a relatively small number of high speed machines can supply all of the wants of a great number of persons. Thus we have the spectacle of wide-spread efforts to put men to work when there isn't work to be done and when machines are infinitely more efficient than human labor anyway. Even these statements could not give the complete picture, said the Technocrats, since industry had long since adopted the policy of selling cheap goods in order to make replacements necessary, thus providing for the continued operation of factories. In fact, "if industry, with what it knows today, should sell to the American people the best that it could produce, most factories would have to be shut down for a period of years" after only a few months of capacity operation.³²

Technocracy's solution to our economic ills was a drastic change in our political and economic structure calling for a government controlled by engineers and technicians and the complete abolition of our price system. The government would operate industry for use and not for profit and the quality of products would be limited only by the limits of technical knowledge. The goods produced by industry would

32. Wayne W. Parrish, What is Technocracy, in New Outlook, Nov. 1932, p. 13-18.

reach the individual consumer through the exchange of "energy certificates" for the goods wanted. The goods themselves would be rated or "priced" in the terms of the energy units required to make and distribute them, and wages would be determined according to the same energy units. Thus the "monetary" system would be based upon an invariant unit rather than our highly variable commodities of gold and silver. The Technocrats estimated that with industry thus being operated by trained technicians and machines being used to the limit for the benefit of all the people "the amount of work required to provide this nation with a much higher standard of living would be much less than the amount of work we have had to do in the past under the price system." The usual figure used by the Technocrats for illustrative purposes was the estimate that four hours a day per working person for four days a week would suffice to produce a standard of living for the United States ten times higher than that enjoyed in the peak year of prosperity, 1929.³³

This philosophy immediately seized the public fancy and Technocracy became a fad. What a politically ambitious leader might have accomplished with such a weapon is problematical, but Howard Scott and his followers were not politicians. While arousing tremendous interest and creating heated

33. Wayne W. Parrish, Technocracy's Challenge, in New Outlook, Jan. 1933, p. 13-16.

discussion throughout the entire country, the movement remained in the realm of the academic. Its immediate effect upon conditions was therefore very slight. As one writer expressed the situation concerning Technocracy's chances of bringing about any essential change in the system in the face of the avowed political disinterest of the leaders:

"The price system has hobbled along now for many centuries... Assuredly it will take more than dogmatic pronouncements that it must abdicate to make it do so. There is little use dreaming about the glories of a promised land without considering means of getting there."³⁴

In spite of the lack of political "sex-appeal" of the movement, the lack of practicality of the leaders, and the exaggerated figures often arrived at in the studies published, it would be difficult to dismiss Technocracy as of no force in the general movement for social security. For one thing Technocracy did call serious attention to important defects of our economic set-up. Even the most violent critics of its conclusions found it very hard to disagree with the general trends shown by its figures. It did start people thinking and brought home the fact that technological unemployment and our debt-credit structure in this country could not continue to be ignored. In the words of the Cleveland Press, Technocracy helped bring the realization that:

34. Wayne Welshaar, Technocracy - An Appraisal, in North American Review, Feb. 1933, p. 128.

"We are not far from the date when shorter hours throughout industry, the diversion of more of the fruits of the industry to the workers, unemployment insurance, old-age pensions, some kind of economic planning, some kind of social control of the business cycle, are imperative."³⁵

Later in point of time, and among the "lesser" nostrums, perhaps, only due to the premature death of its leading figure, was the Share-Our-Wealth movement of the late Huey P. Long, United States Senator from Louisiana. This movement originated as the personal machine of the Senator, and he had been to considerable time and effort prior to his assassination to build it up as a force to be reckoned with in national politics in 1936. Starting from the "tight little empire" he had built for himself in Louisiana, Senator Long and his organizer, Reverend Gerald L. K. Smith, and his large secretarial staff in Washington had gone a long way toward extending the Share-Our-Wealth movement to the other states. The movement was publicized by means of the radio, circulars, letters, and "speaking jaunts" of several organizers.³⁶

The process of organization was simple. Clubs were formed wherever possible - a stimulus to organization work being found in the fact that the organizer of a local club could easily become club president. Anyone could join;

35. Cleveland Press quoted in Literary Digest, Dec. 31, 1932, p. 6.

36. Time, April 1, 1935, p. 15-17.

there were no membership requirements, no dues. Prospective members simply signed and turned in a card bearing the legend "Share-Our-Wealth - Every Man a King." They were then kept supplied with the literature of the organization and with weekly copies of Huey's magazine, The American Progress.³⁷

The program of the organization was simple. The platform as stated in the pamphlet given each new member stated that the purposes of the movement were:

"1. To limit poverty by providing that every deserving family shall share in the wealth of America for not less than one-third of the average wealth, thereby to possess not less than \$5,000 free of debt.

"2. To limit fortunes to such few million dollars as will allow the balance of the American people to share in the wealth and profits of the land.

"3. Old-age pensions of \$30 a month to persons over sixty years of age who do not earn as much as \$1000 per year or who possess less than \$10,000 in cash or property, thereby to remove from the field of labor in times of unemployment those who have contributed their share to the public service.

"4. To limit the hours of work to such an extent as to prevent over-production and to give the workers of America some share in the recreations, conveniences, and luxuries of life.

"5. To balance agricultural production with what can be sold and consumed according to the laws of God, which have never failed.

"6. To care for the veterans of our wars.

"7. Taxation to run the government to be supported, first, by reducing big fortunes from the top, thereby to improve the country and provide employment in public works whenever agricultural surplus is such as to render unnecessary, in whole or in part, any

37. Hodding Carter, How Come Huey Long, in New Republic, Feb. 13, 1935, p. 11-14.

particular crop."³⁸

This platform as amplified from time to time by Senator Long came to include the promise of a job with an income of \$2500 yearly, a home, a radio, and an automobile for every family in the country. A college education was to be given to every child who could prove by an intelligence test that he deserved it. If necessary, all expenses of the college education would be paid by the government, since "if men in the army can be fed, boarded, and clothed while we teach them how to kill, we can do as much for our best minds while they are being trained to live."³⁹

The simplicity of the program to be furthered did not, as one critic aptly suggests, imply clarity.⁴⁰ Huey, being the politician and the demagogue that he was, did not intend to convey anything specific in his suggestions. He intended to convey to the unhappy lower classes only the fact that he believed in a new social order in which the minimum of poverty would be drastically raised, the rich somehow to foot the bill through a capital levy.⁴¹

38. C. W. Swing, The Menace of Huey Long, in Nation, Jan. 23, 1935, p. 98-100.

39. Gerald L. K. Smith, How Come Huey Long, in New Republic, Feb. 13, 1935, p. 15.

40. Hodding Carter, How Come Huey Long, in New Republic, Feb. 13, 1935, p. 11-14.

41. Swing, op. cit., p. 98-100.

To the educated classes this Share-Our-Wealth philosophy had no appeal, and the appeal of Senator Long himself was decidedly negative. Even the arch-liberal New Republic could find no word of praise for Louisiana's dictator in the field of leadership in the social security movement. The criticisms of this magazine perhaps best sum up the feeling of the more intelligent toward the entire program:

1. The proposed capital levy would fail to provide the \$5000 estate and the proposed minimum wage. No figures were ever produced to show that such a levy could accomplish more than a small fraction of what would be expected from it.
2. Senator Long is an extremely ignorant man from an economic point of view. Evidence of this is shown in the fact that he apparently failed to realize the impossibility of dividing property for the purpose of his capital levy, and that the value of industrial property lies in its use.
3. Furthermore, his sincerity is extremely doubtful. All evidence points to a demagogue making political capital of economic misery and arousing false hopes that he could not and would not intend to fulfill.
4. Again the record is against Senator Long. He has completely flouted democratic processes of all kinds in Louisiana.
5. He is essentially a dangerous man from a liberal point of view and with a great national machine behind him would be a possible and probable spearhead of national facism and dictatorship.⁴²

Nevertheless in spite of the fact that the enlightened classes the country over heartily subscribed to this view, Huey's organization grew to an estimated membership of about five million within a few months, and some estimators felt that he might have been able to poll ten million votes in

42. New Republic, March 20, 1935, p. 146-147.

case he should run for president in 1936 - sufficient strength to give him a very definite nuisance value in the national political arena. Many of the nation's leaders privately admitted that the prospect of what Huey might build up in the way of political strength by 1940 gave them the "jitters". Thousands of people in the United States must have heaved sighs of relief when he was removed from the scene.⁴³

Now the question is: could it be possible that a movement lead by a demagogue, a man whose insincerity was all too apparent, a movement which appealed to class antagonism and prejudice, a movement which had no sound economic foundation, and which appealed only to the poorly educated and the illiterate - could such a movement possibly make any contribution to the movement for social security? Again we find it difficult to push the entire movement aside as something of no value. The value of Huey' Long's movement lies in the fact that this, like Technocracy, has helped to call the attention of all classes to the fact that our system can stand plenty of reforming. Furthermore, the growth of this movement indicated rather forcefully that all of the people did not intend to wait idly or to suffer in silence until some happy accident resulted in some attention being given to the fact that there can be no real prosperity until mass security is established. The existence of a highly inflammable political element in our society was clearly revealed.

43. Time, April 1, 1935, p. 15-17.

Huey Long should serve as a warning to our industrial leaders and to our statesmen - a warning of what a skillful and clever "rabble-rouser" might be expected to accomplish. To the extent that the Share-Our-Wealth movement has stimulated the determination of all classes to remove the very basis of such movements - insecurity and misery among the masses - to that extent has it been a gain in the search for social security.

CHAPTER III

UPTON SINCLAIR AND EPIC

History of the Movement

In California in 1933 began one of the most spectacular attempts to "do something" about the depression and to achieve permanent security for that portion of the people who had always known the greatest degree of insecurity. In that year Upton Sinclair launched his campaign for the governorship of California and with it his EPIC (End Poverty in California) plan. Since Upton Sinclair was, and still is, the guiding spirit of this movement, a short review of his career should precede, perhaps, any discussion of his plan.

Upton Sinclair has been a life-long Socialist although he was born into a conventional Southern family. He has lived by his pen all his life, having begun his career as an author at the age of sixteen. He has been one of our most prolific American authors, having written forty-nine books (forty-two still in print), a number of plays, and countless pamphlets and articles. He is often called the best selling and most widely read American author in Europe. His novel, The Jungle, shares with Harriet Beecher Stowe's Uncle Tom's Cabin the distinction of being the only United States novels to have changed the course of history. Most of his life he has been working or writing in some "cause" or another. Since moving to California in 1915, he has run for governor twice

and United States Senator once on the Socialist ticket. By 1933 he had decided that he was not getting anywhere with his "causes" as a Socialist, so he decided to try to make progress by taking over the Democratic party for his work. Therefore he announced his candidacy for the Democratic gubernatorial nomination, and presented his EPIC plan in a little book called, I, Governor of California and How I Ended Poverty, a year before the primaries were to take place in 1934.⁴⁴

For many years it had been Upton Sinclair's belief that "the condition of the mass of workers in the United States has been getting slowly but steadily worse for the past thirty-five years", and at the same time that these poor were getting poorer, the rich were getting richer. Further he was certain that the real causes of poverty were to be found, not in natural economic processes, but in the "actions of men".⁴⁵

The actions of men which have made poverty in America, he proclaimed, have been: First, our banking system ("the American banking system is the most perfect contrivance yet devised by the human brain for making the rich richer and the poor poorer"); second, the protective tariff ("the protective

44. Time, Oct. 22, 1934, p. 13-16.

45. Upton Sinclair, Letters to Judd (Pasadena, 1933), p. 8-10.

tariff in the past thirty-five years has reduced the real wages of the American workingman by five per cent"); third, corrupt influence of American business interests upon government ("not only do they rob you; they make you want to be robbed, and they make you pay them for teaching you to want to be robbed"); fourth, privileges granted to large interests by the courts at the expense of labor ("every time an ex-corporation lawyer on the bench issues an injunction which smashes a strike, he is reducing the average real wages of the workers of America"); fifth, the waste inherent in an industrial system operated for profit ("the existence of American industry depends upon our selling cotton shirts to Chinamen, who are so poor they can't afford but one shirt at a time").⁴⁶

Unemployment he regards as "a disease of the profit system, incurable under that system". In his definition of "hard times" he indicts our system even more bitterly:

"Hard times are tenant farmers starving because they have raised too much food! Hard times are weavers in rags, because they have made too much clothing! Hard times are carpenters homeless, because they have built too many houses! Hard times are workingmen who have finished making the world for their masters, and are ordered to move on to some other planet!"⁴⁷

These being the beliefs which Sinclair had held all his life, and these being the conditions which he had always

46. Upton Sinclair, Letters to Judd (Pasadena, 1933) p. 10-42

47. Ibid., p. 41-2.

fought to eliminate, it was natural that there should be nothing new in his EPIC plan. Everything in it may be found, repeated many times, in his other writings. The novelty lay simply in the fact that he had set out to "capture the Democratic primaries and use an old party for a new job."⁴⁸

Otherwise his plan was simply an announcement of what he would do, if given the opportunity to correct the ills which beset the system - the ills which were caused by "the actions of men."

As a basis for the plan announced twelve principles were announced. These were simply general statements and from these the details of the method of ending poverty were evolved. The twelve principles of EPIC:

"1. God created the natural wealth of the earth for the use of all men, not a few.

"2. God created men to seek their own welfare, not that of masters.

"3. Private ownership of tools, a basis of freedom when tools are simple, becomes a basis of enslavement when tools are complex.

"4. Autocracy in industry cannot exist alongside democracy in government.

"5. When some men live without working, other men are working without living.

"6. The existence of luxury in the presence of poverty and destitution is contrary to good morals and sound public policy.

"7. The present depression is one of abundance, not scarcity.

"8. The cause of the trouble is that a small class has the wealth, while the rest have the debts.

"9. It is contrary to common sense that men should starve because they have raised too much food.

48. Sinclair, I, Governor of California and How I Ended Poverty in California: A True Story of the Future (Los Angeles, 1934), front cover.

"10. The destruction of food or other wealth, or the limitation of production is economic insanity.

"11. The remedy is to give the workers access to the means of production, and let them produce for themselves, not for others.

"12. This change can be brought about by action of a majority of the people, and that is the American way."⁴⁹

Briefly, the EPIC program could be summed up as a proposal to take the unemployed of the state of California, and put them on the land which was being taken by the state for taxes, or the land upon which mortgages were being foreclosed. These unemployed would then be supplied with tools, machinery, seed, and so on, and allowed to produce their own food, as much of it as possible - production being for use and not for profit. Realizing that all the unemployed were by no means farmers, nor could they very easily have been made into farmers, EPIC proposed to supplement the land colony angle of the program by buying or leasing factories and other producing plants which were idle or being operated at a loss. Here the unemployed would be allowed to produce other necessities of life to be exchanged for the food produced in the land colonies. The state would provide the money to start these enterprises and would assume the management until such time as each enterprise had paid for itself; then the enterprise would become the property of the workers. The

49. Sinclair, I, Governor of California and How I Ended Poverty in California: A True Story of the Future (Los Angeles, 1934), page 10.

state would also provide a system of scrip or certificates of exchange of some sort to facilitate the exchange of products among the various parts of the system. These certificates would represent goods produced, and each worker would be paid in the same type of certificates, according to his share in production. Certificates would be cancelled once they had been exchanged for goods at one of the central stations set up to serve as centers of exchange of "stores". A California Authority for Land (CAL) would be set up to acquire land, establish colonies, erect buildings, open stores, and conduct all business operations for the land colonies. The manufacturing end of the enterprise would be in the hands of the California Authority for Production (CAP), and the financing of both Cal and Cap would be handled by the California Authority for Money (CAM). This organization would issue scrip to exchange for the various services and goods produced by Cal and Cap, issue bonds to finance the buying up of land and factories, and conduct all financing operations in general.⁵⁰

Sinclair felt that with such a plan in operation, and that with all the workers producing for use and not for

50. Sinclair, I, Governor of California and How I Ended Poverty in California: A True Story of the Future (Los Angeles, 1934), p. 21-22.

profit, with the resulting increase in the amount of goods owned by each worker as a result of his labor, it would be a matter of only a short time until the system had not only absorbed the unemployed, but until it would be forced to expand to include thousands of workers from industry who were clamoring to be admitted to the system. Eventually, he felt, even the capitalist classes would be forced into the system, due to the fact that: the depression had become permanent for the profit system; labor was scarce since the EPIC system offered real security to the worker who had always been insecure in the industrial set-up of the profit system; private industry could not compete with EPIC; increased taxation upon private industry; desire for the security furnished the other classes by adherence to EPIC. Then complete government ownership would be achieved and the state could promise permanent security to every member of society. There would be no danger of overproduction through operation of factories, farms, and the like at full capacity, since now when a surplus was produced, the workers would own the surplus and could take a vacation instead of being out of a job as under the old system. Each worker was to feel free to work at the job for which he was best fitted and to be the judge of how much work he needed to do. The only compulsion upon the workers was the demand that all the able bodied must produce something of equal value to the goods he received for

his labors. In other words, every one must work. Leisure time would be increased through the operation of industry at full capacity of the benefit of those who labored - the estimate, like that of Technocracy, was that four hours a day would be sufficient labor to produce a standard of living for everyone far above the highest that any of the working classes had ever known.⁵¹

Establishment of CAL, CAP, and CAM and the blessings that were to follow was only part of the legislative program which EPIC called for. Nine other planks in the Sinclair platform called for legislative enactments designed to further the system he hoped to set up or to put heavier burdens of taxation upon the profit system. The remainder of the EPIC plan follows:

"An act of the legislature repealing the present sales tax, which is a tax on poverty, and substituting a tax on stock transfers at the rate for 4 cents per share.

"An act of the legislature providing for a state income tax, beginning with incomes of \$5000 and steeply graduated until incomes of \$50,000 would pay a 30% tax.

"An increase in the State inheritance tax, steeply graduated and applying to all property in the state regardless of where the owner may reside. This law would take 50% of sums above \$50,000 bequeathed to any individual and 50% of sums about \$250,000 bequeathed by any individual.

"A law increasing the taxes on privately owned public utility corporations and banks.

"A constitutional amendment revising the tax code of the State, providing that cities and counties shall exempt from taxation all homes occupied by the owners and ranches cultivated by the owners, wherever the

51. Op. cit., p. 58-62.

assessed valuation of such homes is less than \$3000. Upon properties assessed at more than \$5000 there will be a tax increase of one-half of one per cent for each \$5000 of additional assessed valuation.

A constitutional amendment providing for a state land tax upon unimproved building land which is not under cultivation. The first \$1000 of assessed valuation to be exempt, and the tax to be graduated according to the value of land held by the individual. Provision to be made for a state building loan fund for those who wish to erect homes.

A law providing for the payment of a pension of \$50 per month to every needy person over sixty years of age who has lived in the State of California three years prior to the date of the coming into effect of this law.

A law providing for the payment of \$50 per month to all persons who are blind, or who by medical examination are proved to be physically unable to earn a living; these persons also having been residents of the State for three years.

A pension of \$50 per month to all widowed women who have dependent children; if the children are more than two in number, the pension to be increased by \$25 per month for each additional child. These also to have been residents three years in the State."⁵²

With this plan so highly reminiscent of the Utopian Socialists of a century ago, Upton Sinclair changed his registration from the Socialist to the Democratic party and set out a year ahead of time to capture, in the primaries, "an old party for a new purpose."

EPIC In Politics.

When Sinclair first announced his candidacy, he and his program were a joke to the regular politicians. He made no attempt to tie up with the Democratic machine which pooh-poohed him as a theoretical novice. They soon found, to their

52. Sinclair, op. cit., back cover.

dismay, that he was theoretical but that he was certainly no novice.⁵³ He had the backing of no organization or machine, he had no "war chest" from which to draw campaign funds. He financed his campaign by selling his book, I, Governor of California and How I Ended Poverty at twenty cents a copy and by charging twenty-five cents admission to most of his meetings. Politicians laughed at such unorthodox campaigning, but even without barkers to ballyhoo his meetings he was soon drawing greater crowds than any other candidate.⁵⁴

Sinclair's program included putting a full slate of candidates into the field, and EPIC clubs were organized all over the state to take care of this and other campaign activities. The movement had seized the imagination and fired the hopes of the less fortunate classes all over the state. The number of clubs reached about 1000 and the membership grew by leaps and bounds. The I, Governor pamphlet sold about a quarter of a million copies.⁵⁵ Sinclair published other pamphlets, EPIC Answers and Immediate EPIC, which circulated 50,000 and 15,000 copies respectively.⁵⁶ His EPIC News reached a weekly circulation of 175,000 copies.⁵⁷

53. Time, Oct. 22, 1934, p. 13.

54. Time, Sept. 3, 1934, p. 18.

55. Time, Oct. 22, 1934, p. 13.

56. Sinclair, The Lie Factory Starts (Los Angeles, 1934), back cover.

57. Time, Sept. 3, 1934, p. 18.

Straw polls held throughout the state showed him to be easily the leading candidate. California conservatives began to get the jitters, and politicians stopped laughing and began to realize that it would be a very difficult job to block Sinclair's nomination on the Democratic ticket.⁵⁸

In the field against Sinclair were seven Democratic party hacks and political non-entities, and by the time Democratic boss, Senator William Gibbs McAdoo, rushed George Creel, wartime Chief of Propaganda, into the campaign to bring the number seeking the gubernatorial nomination to nine, it was too late. The EPIC movement had gathered too much momentum to be stopped. Even violent attacks in the newspapers and a vicious whispering campaign⁵⁹ failed to stop the rush to get on the Sinclair bandwagon. At the primary election in August 1934, the total Democratic registration in California outnumbered the Republican for the first time in nearly sixty years. Sinclair trounced Creel by nearly 150,000 votes to win the nomination. Further, he had received a majority over the combined vote of his eight opponents, and had polled the largest Democratic primary vote of any candidate in California history.⁶⁰

58. Time, Sept. 3, 1934, p. 18.

59. Sinclair, The Lie Factory Starts (Los Angeles, 1934) p. 1-64.

60. Time, Oct. 22, 1934, p. 13.

No politician since William Jennings Bryan had so horrified and outraged the Vested Interests,⁶¹ and against him in the general election "was massed all the fire and fury of a thoroughly frightened conservative electorate."⁶² The opposition to Sinclair and EPIC was focused upon the Republican nominee, acting governor Frank F. Merriam. He has been characterized as a "small-bore politician", a political hack, and a man of little ability or personal appeal.⁶³ Since there was little inspiration or leadership to be expected from the Republican candidate, the campaign became entirely a "stop-Sinclair movement" based upon the personality of the Democratic candidate and the program which he advocated. Eventually this negative campaign began to be centered entirely upon the candidate, and beyond the general statement that EPIC was economically unsound and financially impossible and that it would ruin private enterprise, little attention was paid to discrediting the movement, but a great deal of effort was spent to discredit the leader.

Nor was the type of appeal made by Sinclair and his organization calculated to allay the bitterness of the campaign. Although the EPIC program was modified to some extent

61. Time, Oct. 22, 1934, p. 13.

62. Time, Nov. 12, 1934, p. 15.

63. Time, Oct. 22, 1934, p. 15.

(Main modifications: proposed bond issue to buy up land to be postponed and replaced by a heavy levy upon utilities and large corporations and upon unused land to provide immediate revenue; factories to be leased for a trial period of three years, then a vote to be taken upon the question of continuing EPIC.⁶⁴), there was never any doubt that EPIC was intended as the end of private industry, there was never any doubt that utilities and many other privately owned enterprises would be taxed into bankruptcy - and thus into the control of the state - by any EPIC controlled government. Further, the frightened conservative classes felt that Sinclair was appealing to class prejudice and fomenting class struggle in the type of appeal he was making in his speeches and in his pamphlets. They were convinced that no stone must be left unturned to defeat EPIC when they read utterances like the following:

"Our program was carefully drawn to separate the state into two parties. We ask for the vote of every homeowner and ranch owner in California whose property is assessed at less than \$3000. We offer such persons exemptions from all taxes..... We ask for the votes of every person in California who has suffered from the infamous sales tax, a trick device to take the pennies of the poor without their knowing it. We ask for the vote of all unemployed men and women in the state of California. There are close to a million of these, and we offer them decent jobs which will pay them a living at once, and comfort very shortly. We ask for the votes of all relatives of unemployed persons.We ask for the votes of all persons in California over the age of sixty who are dependent upon their labor or charity for their living.... for the votes of

64. Sinclair, Immediate EPIC (Los Angeles, 1934), p. 1-35.

all widowed mothers, and of the blind and helpless, promising them the relief which a civilized society owes them. Finally, we ask for the votes of all--- who would be happier with comfort and safety than they are with luxury in a world of parasitism, greed and strife. These various elements constitute 95% of our voters, and it is purely a question of getting them to understand their true interests. That is the one task; it has always been the task, since the clever few first succeeded in harnessing the many to their service."⁶⁵

From the first EPIC was forced to fight against overwhelming odds. The conservatives raised a campaign fund estimated at from one to two million dollars and enlisted the solid support of the California press.⁶⁶ Early in the campaign Sinclair was ditched by George Creel whom he had defeated in the Democratic primary. Shortly afterwards, the Roosevelt Administration, embarrassed by Sinclair's Socialism at a time when the Administration's leftist tendencies were being soft-pedaled, cast him adrift. Prominent conservative Democrats announced to the public that they were bolting the party because "Sinclair's program is nothing more than a contest of the unemployed against the employed."⁶⁷

Around Los Angeles and vicinity, area of greatest EPIC strength, the most ruthless anti-Sinclair activity was carried on. Three big Los Angeles papers formed a united

65. Sinclair, I, Governor, p. 37-38.

66. Time, Oct. 22, 1934, p. 15.

67. Time, Nov. 12, 1934, p. 15.

front against the movement and stopped reporting news of EPIC or its sponsor. A flood of news-photographs was released to prove that EPIC was luring an army of bums to California. The authenticity of many of those were very questionable - one Los Angeles paper going so far as to print a picture which moving picture patrons were able to identify as a "still" from Warner Brothers' Wild Boys of the Road. Pamphlets accusing Sinclair of everything imaginable descended upon Los Angeles county in a vertiable blizzard; pictures, circulars, Communist endorsements were faked.⁶⁸ Many businessmen sent their employees out to register for the general election with the understanding that if they balloted for Sinclair on election day they were voting their jobs away.⁶⁹ Intimidation, slander, vituperation were used to an extent seldom seen in a political campaign in the United States. Small wonder that one newswriter could report that: "The Stop Sinclair movement has become a phobia, lacking humor, fairness, and even a sense of reality."⁷⁰ Garbled quotations from Sinclair's works, especially The Profits of Religion, were used to frighten the voters, he was accused of atheism, Communism, free love cultism, and

68. Time, Nov. 12, 1934, p. 15.

69. Time, Oct. 22, 1934, p. 15.

70. Max Stern quoted in Time, Nov. 12, 1934, p. 15.

every other "ism" that could be devised by the ingenuity of his opponents to frighten or bewilder his supporters.⁷¹

By the time election day came, the months of conservative propaganda had done their work and the result was a foregone conclusion. Merriam was elected with a total of 1,138,000 votes to Sinclair's 879,000.⁷² Nevertheless, EPIC had made an amazing showing, bucking as it had the Republican party almost in its entirety and the conservative and proper-tied elements of both parties. Furthermore, no Democratic candidate for governor of California had come so close to being elected for a period of half a century.⁷³

EPIC in the Future.

The California election, being the kind of contest that it was, had attracted a tremendous amount of attention throughout the nation. After EPIC's astounding success in the primary elections, the movement began to spread to other states and clubs began to grow up all over the country. In a radio speech the night of his defeat the EPIC founder announced his intention of continuing the work and carrying the organization into every state in the union.⁷⁴ Shortly

71. Sinclair, We, People of America and How We Ended Poverty, (Pasadena, 1935) p. 8-9.

72. Ibid., p. 10.

73. Ibid., p. 20.

74. Ibid., p. 10.

afterward a new pamphlet, We, People of America and How We Ended Poverty, was published in which he outlined a plan for a national EPIC. As in California the Democratic party was to be captured for the purpose rather than trust to the formation of a third party. Naturally, the movement suffered a set-back with the loss of the election in California and a later defeat in the Los Angeles municipal elections. Nevertheless some success in a political way has been achieved in California where the EPIC group holds the balance of power in the Assembly of the State legislature.⁷⁵ In isolated instances throughout the country, EPIC is a somewhat potent political force.

In the light of this knowledge it is not altogether safe to discount the future of EPIC entirely, although we are forced to admit that it has long since receded from its high water mark. Nevertheless, it is entirely possible that we shall hear from it again, just as it is almost certain that we shall continue to hear from the irrepressible Upton Sinclair.

What, if any, contribution has EPIC made to the search for social security? If we can't "love it for the enemies it has made", we can at least hope to profit by the mistakes it has made. Sinclair himself was fond of the quotation:

75. Time, May 20, 1935, p. 17.

"Don't try to split the log by driving the blunt edge instead of the sharp edge of the wedge into it." Yet that seems to be the big trouble with EPIC. It will always be very difficult to adopt a social security program which frightens a great part of the people. EPIC demanded a change in our political and economic structure, and while it is probable that a change would be considered desirable in many ways, the social security program that achieves success is probably going to have to accept the system very nearly as it is. The way out of our difficulties may or may not lie in such a plan as EPIC, but even though that should be our solution we would find it almost impossible to go from here to there in one jump. The contribution of EPIC to social security, then, is probably the lesson that it will be necessary to "go ahead slowly"; that we must first make every possible effort to reform the weaknesses of the system as we find it rather than seeking to substitute something new which will be feared because it is new and untried. In other words, we may arrive at fundamental changes through evolutionary methods, but we have become dominated by semi-conservative thought which shies at revolution.

It would be impossible to leave Upton Sinclair without a few general observations derived from the reading of his works and from the study of the events of his campaign. First, it is very unlikely that any unbiased reader could

read his plan and his program without being impressed by his tremendous sincerity, regardless of what the opinion of the economic feasibility of his program might be. Second, the type of campaign that was waged against him, and the strenuous, almost frantic efforts that were made to defeat him, are very apt to leave the impression with many observers that there might be a great deal of truth in his assertion during the campaign that his enemies were not afraid that his plan would fail in the event of his election; the thing that they really feared was that it would succeed. Third, that regardless of Sinclair's political beliefs and his probable course of action, California might be suspected of having bitten off its nose to spite its face in electing a man of the Merriam type to the governorship rather than to allow Sinclair to hold the office. This last observation is not my unsupported opinion. I quote from the San Francisco Argonaut which was one of the staunchest Merriam supporters during the campaign:

"Would Upton Sinclair have done worse in the gubernatorial chair than the man who defeated him? It may well be doubted. He might even have done better, for he has an atom or two of genius in his composition while all one can discern in Merriam is cobwebs in an empty skull. Heaven help us before we perish from the folly of having chosen such a man as governor!"⁷⁶

76. San Francisco Argonaut quoted in Time, May 20, 1935, p. 17.

CHAPTER IV.
SOCIAL CREDIT

Major Douglas and His Teachings

Social Credit was produced to cure the economic and social ills of the world as the brain-child of Major C. H. Douglas, a Scottish engineer and philosopher. He is a graduate of Cambridge, once worked for Westinghouse in India.⁷⁷ During the War he was the chief executive official of the Royal Aircraft factory at Farnborough, England. Chief engineering feat since the war was the building of a tube railway, for the use of the post office, under London.⁷⁸ His followers feel that it would be incorrect to say that Major Douglas's contribution to economics and social philosophy put him in the "vanguard of living economists", because it "put him ahead of the vanguard." "He was a pioneer laying the financial road which is essential if Western people are to advance into the new civilization made possible and even being thrust upon them, by applied science in the power age in which we live."⁷⁹ That he has put his finger on the true ills of society and thus given the greatest degree of alarm to the "interests" which benefit most from

77. Time, Sept. 2, 1935, p. 16.

78. A. L. Gibson, What Is This Social Credit?, p. 6, in The Social Credit Pamphleteer, (London, 1935).

79. Ibid., p. 6.

the present organization seems obvious to his followers as a result of the fact that he and his work have been boycotted in the London press for over eight years in spite of the recognition that he has received in other parts of the world.⁸⁰

The Douglas ideas were first given to the world in a London Weekly, The New Age, edited by A. O. Orage who became one of the leading proponents of Social Credit. In 1920 and 1921 the Douglas ideas were put into book form in Economic Democracy and Credit Power and Democracy, and determined efforts on the part of Douglas and Orage were made to have the scheme considered and adopted in England. As a result of the post-war depression and the activities of the Scottish labor groups, an investigation of Social Credit was made by a committee of the British Labor Party, in power in the House of Commons for the first time. This committee invited Douglas and Orage to appear before it, but the founders of the movement declined on the grounds that the personnel of the committee lacked the training and experience to investigate the problems to be considered, and that anyway the majority of the committee was already committed to the support of economic dogmas challenged by Social Credit. Without hearing these two gentlemen, then, the committee prepared a report condemning the Social Credit

80. A. L. Gibson, What is This Social Credit? p. 5-6, in The Social Credit Pamphleteer, (London, 1935).

scheme as based upon fallacious economic reasoning. Growth of the movement between 1922 and 1930 was slow, but in that time the philosophy of the movement was still further amplified by two more books brought out by Major Douglas: The Control and Distribution of Production, and Social Credit. These four books together with two more recently published, The Monoply of Credit and Warning Democracy, and a number of pamphlets by Douglas and Orage have constituted the basic literature of the movement. Under the impetus of depression, the movement took a new lease on life and has made rapid growth. Showing, perhaps, that a "prophet is without honor in his own country" the movement has grown most slowly in the country of its origin. In England the membership probably does not exceed 10,000 though it is probably somewhat stronger in Scotland. Considerable progress was reported by followers in the Union of South Africa though no estimate of actual strength in that region is available. By 1933 the movement had made considerable headway in New Zealand where sixteen Social Credit members had been elected to Parliament. In that year Major Douglas paid New Zealand a visit to help educate the people of New Zealand to his doctrines. In Australia in the same year there were a thousand Douglas Credit Societies with a membership of over 100,000. In the United States strength was estimated to be upwards of 100,000 - centered largely in New York and

New Jersey.⁸¹ Major Douglas himself claimed that some features of his scheme had been put into practice in Japan in 1933-34 with very satisfactory results and that they were about to be tried in China.⁸² In 1934, Major Douglas was hired by the government of the province of Alberta to come to Calgary to expound his doctrines, and he was retained by the government as financial adviser for a period of three years.⁸³ He also received a hearing before the Banking Committee of the House of Commons of the Dominion government at Ottawa.⁸⁴ That he had made a profound impression upon Canada was shown a year later when elections were held and Social Credit began a new adventure - that of being actually placed in the saddle of a great government.

The Douglas doctrines begin by rejecting the conclusions of Socialism, Communism, and Facism - particularly the belief that our system is beyond repair and that a drastic change in government and its relation to the people must occur before conditions of the masses of the people will ever be changed for the better. To begin with, Social Credit is the very antithesis of these schemes, since it

81. The Social Credit League of Alberta, Social Credit - History and Character (Calgary, 1935)p. 1-3.

82. New Democracy, May 15, 1934, p. 11.

83. Time, Sept. 2, 1935, p. 16.

84. New Democracy, May 15, 1934, p. 11.

exalts the individual whereas all the other schemes subordinate the individual to an all-powerful state.⁸⁵ However, say the Social Crediters, Social Credit will work in any type of political organization since it is simply a blueprint for an economic framework for society and it matters little what kind of political structure is built around this framework.⁸⁶

Although rejecting the political implications of the various other attempts to organize society upon a better plane, Social Credit does accept many of the beliefs upon which all these other doctrines are based. In fact, most of the primary facts upon which Social Credit's plea for action is based have become truisms and are disputed by no one, regardless of his opinion concerning the worth of the present system. No one doubts that the present difficulties are concerned with the paradox of "poverty in the midst of plenty" and the existence of a great deal of human misery due to the fact that human labor is being replaced by the machine. We seem to be reviewing the primary postulates of Technocracy when we read:

"The primary fact on which to be clear is that we can produce at this moment, goods and services

85. C. H. Douglas, The Douglas Manual of Social Credit (compiled by Philip Mairet, New York, 1935), p. 85.

86. Maurice Colbourne, The Sanity of Social Credit, p. 29, in Social Credit Pamphleteer.

at a rate very considerably greater than the possible rate of consumption of the world, and this production and delivery of goods and services can, under favorable circumstances be achieved by the employment of not more than 25 per cent of the available labor, working, let us say, seven hours a day. It is also a fact that the introduction of a horse-power-hour of energy into the productive process could, under favorable circumstances, displace at least ten man-hours. It is a fact that the amount of mechanical energy available for productive purposes is only a small fraction of what it could be. It seems, therefore, an unassailable deduction from these facts that for a given programme of production, the amount of man-hours required could be rapidly decreased, or conversely, the programme could be increased with the same man-hours of work or any desired combination of these two could be arranged. But it is also a fact that, for a given programme, increased production per man-hour means decreased employment. It is also a fact that never during the past few decades have we been free from an unemployment problem, and it is also a fact that never during the past fifty years has any industrial country been able to buy its own production with the wages, salaries, and dividends available for that purpose....⁸⁷

Douglas decides that, contrary to the claim of capitalist leaders, unemployment is not a "curable disease". He is sure that under the present system of mechanized industry, unemployment is incurable, but a blessing, not a disease if our system functions properly. Under the system as it now works, unemployment is always considered as a symptom of industrial or economic breakdown, but he feels that it should be considered a sign of economic progress thru the increased leisure thus presented to the human race.⁸⁸

87. C. H. Douglas, Social Credit (New York, 1933) p. 18-19

88. Ibid., p. 10.

Now the fact that unemployment is a tragedy and not a blessing, he blames not upon the profit system nor upon any basic defect in our governmental system. There is nothing wrong with the capitalistic system in itself, he feels. The only thing wrong with our system is the fact that we tolerate an out-moded financial system, and that as a result our entire economy is adapted to an age of scarcity, while we have developed no technique for dealing with the age of abundance in which we now find ourselves as a result of the use we have made of machinery.⁸⁹ We must realize that the only object of production is consumption; that industry is run not to furnish employment but to produce goods, and further, that industry if operated at capacity can produce plenty for everyone with a relatively small amount of human labor.⁹⁰ Further, our conception of an economic system based upon a theory of rewards and punishments is antiquated. The rule that if a man "does not work, let him not eat" was satisfactory and necessary in an age of scarcity, but the age of scarcity ended within the present century. Therefore, it should no longer be necessary for people to have a share in goods produced, only as a reward for services of some kind or other. Each individual is

89. C. H. Douglas, Social Credit (New York, 1933) p. 78-91

90. Ibid., p. 124, 14-22.

entitled to some share in the goods produced by industry as a result of his "cultural heritage". The thing which is really most responsible for our increased wealth and ability to produce is the "progress of the industrial arts"; and:

"Quite clearly, no one person can be said to have a monopoly share in this; it is the legacy of countless numbers of men and women, many of whose names are forgotten and the majority of whom are dead. And since it is a cultural legacy, it seems difficult to deny that the general community, as a whole, and not by any qualification of land, labour, or capital, are the proper legatees. But if the ownership of wealth produced vests in the owners of the factors contributed to its production, and the owners of the legacy of the industrial arts are the general community, it seems equally difficult to deny that the chief owners, and rightful beneficiaries of the modern productive system, can be shown to be the individuals composing the community, as such."⁹¹

Now there is only one thing which prevents the general public from receiving its rightful share of the cultural heritage, and that is lack of purchasing power, or money. The reason for the lack of money and therefore the basis of everything that is wrong with the system, is the financial set-up or, in other words, the Banking Interests.⁹²

To understand just how completely the bankers dominate the situation, according to Social Credit, it becomes

91. C. H. Douglas, Social Credit (New York), 1933 p. 48-50

92. Ibid., p. 98-99.

necessary to go into the Social Credit theory of money and price. Social Credit rejects the customary definition of money as a medium of exchange or a measure of value, and adopts another fairly orthodox (Walker) definition of money as:

"Any medium which has reached such a degree of acceptability that no matter what it is made of and no matter why people want it, no one will refuse it in exchange for his product."⁹³

Proceeding from this, Social Credit shows that banks, not governments, possess the power to "make" and "destroy" money at will through their control of credit. Further, banks rarely lend actual money but only "slices" of credit, and this credit is the property of the whole community. Therefore it is wrong that the banks should profit by their exploitation of the general credit, and it is, in fact, wrong that the banks should be able to make and destroy money at will, since a far larger portion of the medium circulating as money consists of credit instruments of various kinds than of actual coin or currency. The price of an article is composed not only of all the costs of its production plus a profit for the producer, but also, under the present system, of a charge upon the producer for the use of credit. Since the part of the price that goes to

93. C. H. Douglas, The Douglas Manual, p. 14.

repay the banker will be withdrawn from circulation, so to speak, it must follow that the wages, payment for raw materials and transportation, dividends, and the like returned to the general public will always be less than the price of the goods produced, by the amount of the bankers share. As time goes on and production increases there is a larger and larger gap between the price of goods produced and the money (wages, dividends, payments of various kinds) available as purchasing power to put these goods in the hands of the public. As the situation becomes progressively worse, depression and deflation eventually result. The only people who benefit from this cycle are the bankers, and their benefit comes directly from their control of the power to control the money supply (grant or restrict credit). There is also included in the price of any article an intangible something that is termed by the Social Credit doctrine the "unearned increment of association". That is, the products of industry are more valuable because of the fact that their creation was a co-operative enterprise, than they would be if all products - with a resultant lowering of production - must be produced by single individuals.

This increased value of the products of industry which comes about through the association and co-operative endeavor of many people is the rightful property of the whole community, but it has been taken by the bankers through their

control of credit.⁹⁴

The reason such a system has been allowed to grow up, say the followers of Social Credit, is the fact that we came to demand, in times past, that our money have value in itself, i. e. gold, and silver. At the same time we have become accustomed to thinking that all our credit instruments must represent definite amounts of the commodities we have picked to use as money, and we have come to feel that money (or credit) is, in itself, wealth. We must divest ourselves of the idea that money is wealth, and quit thinking of money in terms of something intrinsically valuable. Rather, we must regard money as a ticket which may be exchanged for goods and which has no value after the exchange has been made. Money or credit must constantly be created to represent goods and to meet the need of adequate purchasing power just as railway tickets must constantly be printed. Furthermore, the creation of money should be as costless and minor a factor in industry and our economic life as the printing of tickets is to the railway company. Continuing the analogy, it can readily be seen that no railroad would despatch trains full of empty coaches while passengers inside the station clamored for seats - offering as an excuse

94. C. H. Douglas, Social Credit, p. 185 - 190; 130 -144; 94 - 105.

that the supply of tickets had run out. Yet the system under which we live is even more ridiculous, say the followers of Social Credit, for we have tremendous stores of goods or the ability to create them, immense quantities of raw materials, processing machinery of all kinds, the ability to satisfy every human need on one side of the station barrier; on the other side we have thousands of people in need, anxious to trade the fruits of their labors for these goods. Nevertheless, we allow the commodity train to depart to dump the goods into the fire or the sea (or, in the United States, to prevent their production in the first place), while the needy thousands clamor at the barrier because they lack the tickets necessary to become passengers.⁹⁵

Now, since the only thing wrong with our system is the lack of money, and since the lack of money or purchasing power is due to the bankers (or at least five per cent of the biggest ones), the remedy must lie in having the state take back the power to make money (the control of credit) which it never should have allowed the banks to usurp in the first place. At the very least, there must be a socialization of credit, and if the banks continue to control credit, it must be as a function delegated by the state and

95. Hewlett Johnson, Social Credit and the War on Poverty, p. 5 - 10, in Social Credit Pamphleteer.

the profits of that function must accrue to the community as a whole. Banks must assume their proper functions which are simply to serve as accountants and to supply places of safe keeping for valuable property. Thus banks would be expected to charge no interest upon loans, nor would they pay interest upon deposits; instead a small charge would be made for the service rendered in safe guarding deposits.⁹⁶

More completely, the Social Credit remedy for our social ills, consists of three things; (1) the socialization or nationalization of money and credit; (2) the granting of purchasing power in the form of national dividends to all citizens; (3) the sale of all goods at a "just" or "compensated" price through the use of the "national discount".⁹⁷

The socialization of credit will not only call for the state to take over the control of credit, but it will call for the abolition of interest. Loans without interest will be made to industry for the purpose of production. Further, it will be necessary to open a "national account book" in which the total capital assets of the region considered will be entered. This estimate will include not only the value of all land, buildings, machines, and the like but

96. Time, Sept. 2, 1935, p. 17.

97. Douglas, Social Credit, p. 205 - 212.

also the capital value of all the citizens. (Major Douglas estimates that a United States citizen at the age of 25 would, on the average, be worth \$50,000 to the community.⁹⁸) Against this total must appear the annual consumption of materials, depreciation of machinery and buildings, exhaustion of raw materials and the like. The state must keep careful account of this capital value at all times and must issue financial credit (money) to the full extent of the real credit (goods, etc.) in existence. Whenever there is an appreciation in the real credit of the country over the financial credit, more money must be issued, but when the real credit declines, the money supply must be contracted.⁹⁹

The national dividend shall be paid to all citizens as shareholders in the corporation which their country has now become. The right of each individual to a dividend is based upon the postulate that the unearned increment of association and the cultural heritage are the property of everyone. Therefore some arbitrary figure shall be fixed upon each year (some percentage of the capital valuation) as a dividend and that amount divided equally among the citizen-shareholders. This would probably be done by means of monthly checks through the post office. This sum, however

98. C. H. Douglas, Social Credit, p. 205.

99. Hewlett Johnson, Social Credit and the War on Poverty, p. 20-22, in Social Credit Pamphleteer.

large, would be tax free. Also, no change in the existing ownership of industry would be involved. These dividends would simply be paid by the government as part of its control of the credit and in line with its duty to issue additional money to keep up with the appreciation of real credit.¹⁰⁰

Whereas the use of the national dividend alone might lay the system open to a charge of bringing about inflation through its increase in the money supply and a corresponding increase in prices and even a decrease in purchasing power, Social Credit replies that an expansion of money in itself is not inflation; we do not have inflation until we have expanded the price level. The national discount is the machinery to be used to prevent inflation by not allowing the price level to rise. In fact, it is the Social Credit theory that the national discount will even reduce the price level with the gratifying result that purchasing power will have increased through the use of the national dividend in company with the national discount. The amount of the national discount would be determined by dividing the net enrichment of the country by the total or gross enrichment. (Thus: the country produces or imports wealth to the value of 100 millions; goods used or exported are valued at 75 millions. While there is a total or gross enrichment of

100. C. H. Douglas, Social Credit, p. 207-208.

100 millions, the net enrichment is 25 millions. Thus the national discount is 25 per cent.) A buyer of any article would be able to purchase the article for the amount of the national discount less than the marked price, and the seller - upon presentation of evidence that the transaction had taken place - would be paid the amount of the national discount by the government. For instance: if the price of a suit of clothes were \$40 and the national discount amounted to 25 per cent, the merchant would receive only \$30, from the buyer, for the suit. The remaining \$10 would be paid the merchant by the government. Thus, by the use of the national discount to reach a "compensated price", the value of the national dividend to each citizen would be enhanced since purchasing power would be increased.¹⁰¹

There would be no taxes under this system with the exception of a "turnover" or sales tax.¹⁰² Wages, profits, and the like would continue to be received by the individuals entitled to them in addition to the national dividends. In short, the disciples of Major Douglas feel that this system would completely fulfill the Social Credit objective of enabling the people to exercise an effective demand on everything which they could produce.¹⁰³

101. A. L. Gibson, What Is This Social Credit? p. 21-26, in The Social Credit Pamphleteer, (London, 1935).

102. C. H. Douglas, The Douglas Manual of Social Credit, p.35

103. Gibson, op. cit., p. 25.

The exact manner in which this system is to be achieved seems to be somewhat nebulous, even in the minds of the most ardent followers of Social Credit. Further, there is little attempt to explain just how the cultural heritage and the un-earned increment of association will be evaluated. Further, none of the enthusiastic gentlemen who have written concerning the subject of Social Credit have bothered to explain just what prevents the giving of the national dividend and the national discount on the one hand and the levying of a sales tax to finance the whole thing on the other from being, as one critic expresses it, a plan for "taking money from one pocket and at great expense, trouble, vexation, and an amount of parade, placing what was left in the other pocket."¹⁰⁴

The average reader - at least the reader uninitiated in the mysteries of Social Credit - may also have a little difficulty in understanding upon just what basis the "corporate profits" of a country may be figured in order to give a sound and equitable basis for the declaration of dividends. Even with all these defects, however, it would be very hard to maintain that Social Credit does not put its finger upon some bad spots in our system as it is now run. There is no end of material to be found in Social Credit literature with which

104. W. M. Davidson, The Abernethy Plan, (Calgary, 1935), p.2.

anyone, who believes the present system does not provide even a minimum amount of security, must agree.

Social Credit in Alberta

"A little knowledge is a dangerous thing." This was well proven in Alberta politics in the past year when a Social Credit wave engulfed our northern neighbors, the province of Alberta. In the election of 1935 William Aberhart and his Social Credit party became the government of Alberta, capturing 57 of the 63 seats in the provincial parliament.¹⁰⁵ Mr. Aberhart is pious, conscientious, an astute politician, but on the whole as innocent of any knowledge of economics as any man who was ever called to hold a responsible position in the government of a great people. His following is enthusiastic to the point of fanaticism, profound in its belief that he is a modern Messiah god-appointed to lead the world -or at least Alberta - out of its present difficulties, and yet probably no electorate was ever so profoundly ignorant of the purposes or implications of the plan they purported to favor as the tremendous majority which swept Mr. Aberhart and his party to power last August.

Since the impressions of "eye-witnesses" are often considered an acceptable source of history, I shall use footnotes and references to authorities less frequently in the

105. Time, Sept. 2, 1935, p. 16.

remaining portion of this chapter on Social Credit. It was my good fortune to spend several months in Canada just prior to last year's election and at the time that the campaign was the "hottest". At that time Social Credit was the only stable subject of conversation; no matter the original subject under discussion in any gathering, the conversation soon veered about to Social Credit. Naturally, with relatives and friends finding the subject of such vital interest, I felt constrained to make some investigation of the subject myself. This I did through conversations with those interested, newspaper and magazine articles, radio speeches, and political meetings. I feel, therefore, that my impressions are reasonably reliable, and that my information is more complete than I could obtain by reading any number of secondary sources published in this country since that time. Thus I feel justified in considering that on many phases of this division of the subject I am my own best authority and that reference to others is unnecessary in many instances which would ordinarily call for the citation of an authoritative source.

Politically William Aberhart may best be described as a combination of Upton Sinclair and Father Coughlin. Like the priest he built up his original following by means of the radio. He was for twenty years principal of the Crescent Heights high school in Calgary, the largest school in the

province. One of his political opponents estimates him as only a fair teacher but a competent executive; a man who had shown himself to be "resourceful, efficient, determined, strong, and resolute."¹⁰⁶ A pious man, he was for years connected with a small Calgary church as lay minister. With the advent of radio he became one of the pioneers of broadcasting in Alberta and his Prophetic Bible Institute grew to a \$65,000 plant with thousands of adherents outside of Alberta.¹⁰⁷ Like Upton Sinclair he built up and consolidated a political machine by means of neighborhood clubs.

Early in the depression, the Aberhart broadcasts from his Prophetic Bible Institute began to take an economic tone. He had been profoundly impressed by the Douglas visit to Calgary and he was soon preaching the doctrines of Social Credit in his broadcasts.¹⁰⁸ It seems rather obvious that Mr. Aberhart's understanding of the Douglas doctrines was at best incomplete (and whose isn't?), for the Social Credit plan for Alberta was a sadly emasculated Douglas plan. Mr. Aberhart retained the mumbo-jumbo of Social Credit terminology, the idea of the basic (national) dividend - without the national discount, however, the sales tax, the idea of taking

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108. Time, Sept. 2, 1935, p. 16 and W. M. Davidson, The Aberhart Plan, (Calgary, 1935), p. 24.
 106. W. M. Davidson, The Aberhart Plan, (Calgary, 1935) p. 24.
 107. Time, Sept. 2, 1935, p. 16.

a definite "sock" at the bankers, and little else. As part of his own plan, he sets up a State Credit House, which is to receive and issue dividend credits,¹⁰⁹ but not, as called for in the Douglas plan, to keep the supply of credit instruments equal to the price of goods produced so that there will be in existence at all times enough purchasing power to buy all the goods in the province. His "just price" to be determined by fixing the return for all elements of production, reasonable profit, and the like, was a mere shadow of the Douglas "compensated price". Mr. Aberhart expected to recover the total amount of the basic dividend through his sales tax, although the Douglas sales tax was simply to provide the ordinary revenues necessary to run the government. In the Douglas plan the national dividends and the national discount were simply the monetary representation of the cultural heritage and the unearned increment of association, and were the necessary issue of "tickets" to keep the supply of purchasing power equal to the supply of goods. Another Aberhart innovation announced during the campaign was the restriction of the dividends to the political supporters of Social Credit.¹¹⁰ Still another difference from the Douglas doctrines, and regarded by the

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109. The Perfect Cycle (Study Group Feature #5, a pamphlet issued by Social Credit League of Alberta, Calgary, 1935.)
 110. William Aberhart, Social Credit Manual, (Calgary, 1935) p. 47.

followers of Aberhart as a distinct improvement upon the purely economic tenets of Douglasism, was the requirement that none of the basic dividends might be spent upon liquor or luxuries, but only upon the necessities of life.¹¹¹ Finally the Aberhart plan called for the payment of dividends, not in regular credit instruments or in money, but in non-negotiable certificates which must return to the Credit House within forty-eight hours after being exchanged for goods. In a vague way these certificates would be a "charge against the Natural Resources of the Province much in the same way as the present Government Bonds are."¹¹² However, the creation of a huge debt was denied because, Mr. Aberhart asserted, the velocity of turnover or circulation of money and goods in the province - stimulated as expected by the new blood of the Social Credit dividends - would provide the basis of a sales tax which would raise tremendous amounts of money upon a relatively small expenditure of real money.¹¹³

Very few people in Alberta, perhaps, had ever understood either the Douglas or Aberhart plans, and as the Aberhart

111. Time, Sept. 16, 1935, p. 22.

112. William Aberhart, Social Credit Manual, (Calgary, 1935) p. 23-27.

113. Ibid., p. 27-31.

plan became more and more confused, the number who even claimed an understanding of the plan became almost non-existent. What the people did understand, however, was that Mr. Aberhart was promising every adult citizen of Alberta a basic dividend of \$25 a month, and further that it would not be necessary to do anything to earn this money. They also understood that under the former government the provincial debt had been greatly increased and that taxes were very high and times were very hard. They understood, further, that they received a low price for the things they sold and paid a much higher price for the things they bought. Unemployment figures were very high and increasing daily. Thus the incidence of depression and what seemed to be the promise of something for nothing was enough to stampede most of the population into the Social Credit ranks.

Social Credit clubs were organized in every community - no cross roads was too small to support an active club. For a year before the election, clubs held regular meetings, studied Social Credit literature supplied from Calgary, worked among their friends and neighbors to make converts to the cause. Due, probably to the pious character of the leader, the movement developed all the reverence and religious fervor of a crusade or a revival meeting.

In vain frightened conservatives pointed out that the application of the Aberhart Plan would mean prodigal

taxation, tremendous increase in commodity prices, impossible restrictions upon agriculture, flight of capital from the province, danger of dictatorship, economic isolation for the province, and that the whole scheme was probably unconstitutional anyway as well as being founded upon an economic fallacy.¹¹⁴ The leader instructed his followers in his writings and in his public utterances not to argue with "unbelievers" and to accept the program on faith until such time as he could get around to working out the actual details of the plan. His following responded loyally with the results already noted when election day came. Social Credit meetings were "sell-outs" all over the province. When the leader spoke, thousands crowded to hear and see him. Opposition speakers were forced to speak largely to the members of their immediate families and their friends. The general public had made up its mind and didn't attend. The press was solidly anti-Aberhart, but the Social Credit Weekly was the only really widely read paper that summer anyway.

As his enemies were not slow to point out, Mr. Aberhart drew the greatest part of his following from the section which "never gets beyond the basic dividend", that is, the group hoping to get something for nothing. Another group

114. W. M. Davidson, The Aberhart Plan (Calgary, 1935), p. 2.

was composed of the people who were simply anxious to get on the bandwagon. A third large group was the group which was attracted to him largely by religious frenzy and concerned only incidentally in any political issues that might be at stake. A few of his supporters were sincerely anxious to give Social Credit a trial, and a fifth group consisted of people with their "backs to the wall" who, in desperation, were willing to give Aberhart a chance, confident that he could do no worse than the last government and hoping that he might do better.¹¹⁵ While these groups alone might have given Aberhart control of parliament, they could never have given him the overwhelming majority he now has. The opposition overlooked one very important group to whom they failed to make any appeal that carried any real reassurance with it. This group might be classified as the moderately prosperous farmers, workers, shop-keepers and the like. This group had not felt the full force of depression yet though they were fully conscious of the fact that their security was facing a real threat. This class would ordinarily be conservative, but at this juncture they were frightened, badly frightened - but not at the specter of Aberhart and Social Credit. The thing which frightened them far more was the shadowy something on the political horizon beyond Aberhart.

115. W. M. Davidson, The Aberhart Plan, (Calgary, 1935), p. 25.

I recall very vividly a conversation with one of the members of this group. He was a farmer with a well kept farm, good buildings, wells, wood-lot, plenty of pasture, and with a well diversified system of crop-planting. In addition to acreage in hay and several grains, and a good garden, he had hogs, milk cows, beef cattle, plenty of horses. He owned a car of fairly recent vintage and in good repair. He also owned a truck in good working order. Furthermore, he had always done business on a cash basis and he had no debts whatever. I knew him well enough to know that religious fanaticism had not touched him, and that he wasn't seeking a ride on anyone's political bandwagon. I mentioned all these things to him and asked frankly: "Why should a man who is in as good financial condition as you are lend his support to some wild scheme like this? Even if it could be made to work, it would have to work at the expense of you and others like you who have a little and for the benefit of those who don't have anything and probably never would have anything under any system."

His reply was interesting. He gave me rather a new slant on the question when he said: "I'd rather take my chances on having this idea work at my expense than to take chances on what might happen if we go on as we have been. We can't go on with people losing their farms and their homes and their jobs indefinitely. There are hundreds of

men and boys walking the roads - dozens of them go by here every day. Unless something happens for the better soon, the day may come when they just won't walk any more. I'd rather lose a little under Aberhart than take chances on losing everything as a result of what might happen. This Aberhart Plan had better work, because it may be all that stands between us and something really bad."

What progress has the Aberhart Plan made in Canada? The fact that Major Douglas has washed his hands of the whole experiment by resigning as financial adviser to the government of Alberta,¹¹⁶ and that Alberta has defaulted on two matured bond issues since the Social Credit government took power,¹¹⁷ and that no basic dividends have been paid would make it appear that the new government has not done too well.

It should be realized, however, that the Aberhart government is working under some very distinct handicaps. Not the least of these as far as any actual application of Social Credit is concerned, is the fact that the limitations imposed by the federal constitution (British North America Act) would effectively close the gate to most of the pre-election Aberhart program.¹¹⁸ Most responsible for the default on

116. Time, March 16, 1936, p. 24.

117. Time, April 13, 1936, p. 26.

118. W. M. Davidson, The Aberhart Plan, (Calgary, 1935), p.4-5.

the bond issue was the fact that the Social Credit government inherited a bankrupt treasury and a debt of \$150,000,000 from the outgoing government.¹¹⁹ Being ditched by Major Douglas may be a blessing in disguise, but the severest handicap of all is the fact that Mr. Aberhart is going to have a very hard time ditching the Social Credit idea - or more accurately, the basic dividend idea. He spent over a year building up a political following upon the proposition that he was going to get \$25 a month for everyone. As a result he is now placed in a position where nothing that he does will be right unless he is able to deliver the \$25 a month. That he has not been able to do, and there is every indication that he will never be able to do it - in spite of a fine sounding "Social Credit Measures Act" passed in the closing days of his first parliament. This act declares that "the people of the province are entitled to the full benefit of the increment arising from their association" and authorizes an investigation of the subject.¹²⁰ Along other lines, or rather in connection with the planks of his platform other than the Social Credit planks, Mr. Aberhart has done

119. Time, April 13, 1936, p. 27.

120. Synopsis of Statutes of General Application Enacted at First Session of the 8th Legislature (Alberta), Edmonton, 1936, p. 6.

pretty well in the matter of carrying out his pre-election promises. Yet it is probably no exaggeration to say that on this one issue will he be judged by his people, and - to paraphrase the villain in the old melodrama - he has probably "rued the day" he began to promise people \$25 a month long before this.

However, it is hard to see how Mr. Aberhart's election will hurt Alberta any. Even the fact that he has a cabinet in which political ability is conspicuous by its absence,¹²¹ and that he is "without experience in business, with little knowledge of the way business is transacted, and ... he is not a student of government, economics, or political history,"¹²² should do comparatively little harm. At least Alberta is hopeful that since they have a leader who is fundamentally honest, conscientious, and sincere that his government will at least be an improvement over the one it replaced. Conservatives have been somewhat relieved to find that, as is usually the case, seeming radicals are chastened and sobered by the responsibilities of being thrust into office. Even the most ardent disciples of the Social Credit idea are now becoming reconciled to the fact that if any new and startling application of Social Credit principles is made or any great

121. Time, Sept. 16, 1935, p. 21.

122. W. M. Davidson, The Aberhart Plan, (Calgary, 1935), p. 25.

contribution to the "New Economics" comes out of Alberta, it will have to come as the result of prayer, at which Mr. Aberhart excels, and not as the result of intellectual brilliance or statesmanship, ⁱⁿ which qualities Mr. Aberhart's talents are less evident.

What contributions has Social Credit made to the search for social security? Its greatest contribution lies in the fact that it has stressed and brought to the attention of a great many people the idea that the worst feature of our present system is the lack of purchasing power among the masses, and that destruction of surplus and restriction of production in the face of existing poverty and need is both contrary to the nature of things and criminally wrong. That its primary postulates are of doubtful soundness in an economic sense matters not at all in the light of the service it has rendered in the way of pointing the finger of publicity at some of the sorest spots in our economic system. The contribution to be expected as a result of the Canadian experiment is less certain. There may be some value, however, in the fact that a radical group has captured a government on this continent. Conservatives who have resisted all approach to a real security program in the fear that it would cost them something, may be made to realize - like my friend, the Alberta farmer - that the provision of a decent amount of social security in some legitimate way may be the

cheapest way out, even if it does cost them something. Events in Canada certainly should serve to shake their smug assurance that "it can't happen here", since the people who installed a Social Credit government there are very much like the people on this side of the line in every way - in fact a great percentage of the population of Alberta came originally from the United States. From this angle alone, we may yet be able to point to "Bible Bill" Aberhart as one of the permanent landmarks in the search for social security.

CHAPTER V
THE TOWNSEND PLAN

The Plan

Of all the panaceas evolved for ending the depression and providing permanent social security in the United States, the one which has seemed most plausible and desirable to the greatest number of people has been the Old Age Revolving Pensions Limited, or as it is more familiarly known - the Townsend Plan. At least this conclusion would seem to be justified by the tremendous growth of the movement in the two and one-half years of its history and the fact that it has bloomed and prospered in spite of every effort to discourage or discredit it until it has become a political force of considerable importance in this election year of 1936.

The author of this most recent attempt to bring about the disintegration of all the ills of man at "one fell swoop" is Dr. Everett Townsend, a 69 year old country doctor. Dr. Townsend was born in Illinois in 1867, worked his way through Nebraska University's medical school, began practice in the Black Hills of South Dakota at the age of 36. At the age of 52 he moved to California, served for a time as assistant city health officer of Long Beach, later resumed private practice.¹²³ With the coming of depression both his

123. Time, Oct. 15, 1934, p. 15.

practice and his savings were swept away, forcing him to scrape a bare living as a real-estate salesman.¹²⁴ Legend has it that Dr. Townsend was inspired to bring forth his plan by the sight of two old cronies dining from a garbage can. Just as probable is the belief that he was set to brooding upon the miseries of the aged poor by the disappearance of his own savings and the fact that he had been forced, after reaching the age of 60, to struggle for a living rather than being able to enjoy a life of ease and security which he felt he had earned.¹²⁵

Dr. Townsend opened the Plan's first office in the rear of a Long Beach real estate salesroom with two assistants in November of 1933. His success was quick. In 1934 his office employed fifty people and there were 644 Townsend Clubs, Delaware being the only state in the union lacking in such an organization. Sales of his pamphlets were tremendous; between two and five million people were estimated to have signed petitions asking Congress to put the plan into effect at once.¹²⁶ By the middle of June, 1936, Dr. Townsend was definitely a national figure and the Townsend Plan was a large and growing enterprise. The official organ of the movement, The Townsend National Weekly, had a circulation of

124. Time, June 1, 1936, p. 9.

125. Ibid., p. 9.

126. Time, Oct. 15, 1934, p. 15.

over 400,000;¹²⁷ the 644 clubs of 1934 had grown to approximately 8000;¹²⁸ few had any idea of the exact numerical strength of the organization, but officeholders up for re-election feared that it was very large. Like Social Credit in Alberta, Townsendism has come to be almost a religion with its adherents, and the zeal with which they promote the plan is evangelical to the point of fanaticism. According to one writer, the pressure upon Congress has become much greater than was ever brought by veterans for the bonus. Further "reasoning with the Townsend Plan advocates does no good The thing is not in the world of reasoning or of statistics. It is in the world of mysticism."¹²⁹

What are the features, then, of this plan which has gained such a following and has been the subject of so much bitter debate throughout the country? We find that the Townsend Plan begins where all of our other plans begin. In common with every type of panacea already discussed, the Townsend Plan makes some statements about the present system that even the most rabid supporter of things as they are would find it very difficult to deny. This much of the Townsend Plan should have a familiar ring:

127. Townsend National Weekly, June 15, 1936, p. 17.

128. Ibid., p. 9.

129. Mark Sullivan quoted in Time, Jan. 14, 1935, p. 14-15.

"Man is in want amidst plenty! There is food enough and more to feed every hungry and undernourished person; there is enough wool, cotton and fibre to clothe every man, woman and child in the United States - and more; there are building materials in mine and forest, mill and factory warehouse to house every family in America in a modern home; there are raw products, factories and modern machines - now unused and idle - sufficient to manufacture modern appliances and equipment that are needed for all these modern homes; there are idle railroad engines and freight cars and great railroad systems - now threatened with or in bankruptcy - waiting to transport these needs of man to every nook and corner of the United States. And there are ten billions of dollars in gold in government vaults out of circulation owned by your government - owned by you collectively; and the banks of this country have the greatest reserve - money on hand - that they ever had in history. Amidst all this wealth in money, modern machines, God's abundance of nature's products, and idle manpower, we are afflicted with want, hunger, and misery! The financiers, the business experts, the so-called 'economists', and the politicians offer no workable solution to this malady which is afflicting the country. Hide away the gold, destroy food production, and plow under cotton seem to be their only remedy!"¹³⁰

And again:

"We recognize the fact that the inventive genius of the world, and especially of the United States, has, through the perfection of labor saving machines, created a huge surplus of producers as well as a surplus of products. There is a constant standing army of the unemployed They can never be put to work again unless they are willing to accept the short day and the minimum wage. Their labor will be too expensive. Machines will do the work of all of them in infinitely less time and at less cost."¹³¹

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130. Old Age Revolving Pensions Limited, The Townsend Plan (A circular; no date).
131. The Townsend Plan, p. 9. (a pamphlet issued to all members upon joining a Townsend Club.)

In other words, we are faced with increasing and probably permanent technological unemployment, we have an unlimited capacity to produce as a result of the machine age, and the thing most responsible for the paradox of poverty in the midst of plenty is the lack of purchasing power in the hands of the masses and a consequent failure of money to circulate. The Townsend Plan, considering all of these things, is put forth then primarily as a permanent national recovery program. Like Social Credit it is based upon the promise that our political system is satisfactory just as it is, and that our economic structure (the profit system) is also a satisfactory set-up. The only thing really wrong is our financial system which prevents the free circulation of money. This, says Dr. Townsend, can be remedied in such a simple manner that it is a wonder no one arrived at the solution before.

The solution proposed by the Townsend Plan is simply that we pension everyone, except habitual criminals, at the age of 60. Every citizen would be automatically insured against old age by the government at birth. Upon reaching the age of 60, he would be entitled to an annuity of \$200 per month for life. The only strings attached to this annuity would be the stipulation that the recipient must retire from all forms of gainful employment, and that he must guarantee to spend the entire amount of the monthly pension within thirty days after receiving it, and further, that the money

must all be spent within the boundaries of the United States. While the 1930 census showed almost eleven million citizens of the United States to be over 60, Townsend leaders estimate that probably only eight million would qualify for the pension. Payment of the proposed pension to this number would require a sum of one billion six hundred million dollars monthly or from twenty to twenty-four billion dollars annually. This sum would be raised by a tax of two per cent upon all transactions of whatever nature.¹³² In this manner, says the official statement the Townsend Plan strikes at three objectives:

"First, to increase business and develop prosperity by increasing the circulation of money and buying power among the masses; second, give opportunity to American youth and those under 60 now employed by creating jobs; and third, give social security and a decent standard of living to our fathers and mothers in their declining years."¹³³

The sponsors of the Plan feel that the pension system can be administered without any addition to present governmental machinery and with only slight augmentation of existing office forces. It is proposed that payment of the pensions be handled by means of checks through the administrator of veterans' affairs at Washington. Existing county pension boards will attend to the matter of application for pensions,

132. The Townsend Plan; National Recovery Program: Ready Reference (Chicago, 1936), p. 4-7.

133. Ibid., p. 7.

and the pensions will be spent by means of checks drawn upon the banks where the pension checks are deposited. The bank records will then show whether the pension has been spent and for what purpose each expenditure has been made. Only when there is a complaint that a pensioner is not spending his pension as stipulated will it be necessary to call for special activity from the federal government.¹³⁴ Nor will the collection of the transaction tax necessitate the creation of new governmental machinery. This tax will be collected in the same manner as other federal taxes by the Internal Revenue Bureau under the supervision of the Treasury Department. It is predicted that these taxes will be much easier to collect than, for instance, the income tax since the government will be concerned only with the gross amount of business transactions. Most businesses must keep records of total transactions anyway for the purpose of income tax returns, so this will place but little additional burden upon the accounting departments of private industry. The tax on payrolls can be collected monthly and in the same manner that annuity assessments are now collected from civil service employees by the government: by having the employers deduct and withhold the amount of the tax from the salaries of his employees and paying the total amount of the tax to the treasury.¹³⁵

134. The Townsend Plan; National Recovery Program: Ready Reference (Chicago, 1936), p. 15.

135. Ibid., p. 61

That the basic features of the Plan are no accident but the result of careful study is pointed out by the official literature of the organization. While it might be shown that few people above the age of 60 need \$200 a month and few couples of that age need \$400 a month, it is pointed out that \$200 is the proper amount because this is primarily a national recovery plan and not a mere pension plan. The object of the plan is to stimulate business through an increased circulation of money and increased buying power and to create additional jobs. Therefore, the pension must be sufficient to make the recipients completely willing to retire from gainful occupations and large enough to furnish real buying power. A bare subsistence pension would not do its part toward the stimulation of industry since then only necessities would be bought with pension money. It is desired to stimulate the production of comforts and luxuries as well as of necessities. Furthermore, it is estimated that the expenditure of \$2400 annually is required to make possible the employment on a permanent basis of one worker. Therefore, the \$200 a month pension will result in the creation of as many jobs for younger persons as there are recipients of the pension.¹³⁶

The requirement that the pension money be spent in a period of thirty days is based upon the belief that one of

136. The Townsend Plan, p. 14

the greatest obstacles to recovery today is idle money in government or bank vaults - money out of circulation. Keeping the money in enforced circulation, Townsendites believe, will keep the wheels of industry moving and call for continuous employment and the operation of industry at capacity. Thus the Townsend plan will be able to sustain itself on the new wealth created by the now idle money, machines, materials, and men.¹³⁷

Finally, the aged were the class picked to keep the purchasing power circulating because it was the only class which could be universally agreed upon as deserving of retirement upon a pension, since everyone expects to belong to this class eventually. Moreover, the aged are more uniformly distributed throughout all sections of the country and according to population than any other class. Therefore, they could best bring about a uniform circulation of buying power throughout the country.¹³⁸

Tremendous benefits for the whole country as a result of the application of the Plan are confidently expected by the sponsors. Over twelve million workers now unemployed will have incomes where they now have none. Although prices will rise, the increase in business and the creation of new

137. The Townsend Plan, p. 23

138. Townsend Plan (membership pamphlet) p. 29.

jobs will bring about a rise in wages. In fact, the increase will be more than sufficient to bring about an increase in real wages in spite of rising prices and the deductions made as a result of the transaction tax.¹³⁹ Enormous savings to the government will be effected through application of the Plan, and thus other types of taxes may be greatly decreased. Some of the savings to be expected include:

"First, ... abolishment of the 'poor house' and the 'poor farm' now maintained by counties and states at the cost of billions of dollars.

"Second, it will save billions of dollars now being spent by the federal, state, and county governments to feed and clothe the unemployed . . . and millions of dollars now being contributed to private . . . charities

"Third, it will enormously reduce the necessity of contributions to . . . Red Cross and Community Chests . . . amounting to millions of dollars in the nation.

"Fourth, it will save millions of dollars to those now paying hard-earned premiums for old-age annuity insurance

"Fifth, it will save millions of dollars now spent to maintain old soldiers' homes by the government as well as old people's homes maintained by trade unions and professions.

"Sixth, it will save millions of dollars now spent by the taxpayers to pay pensions to old soldiers, army officers, judges and other retired state and national officials, including retired civil service government employees.

"Seventh, it will save billions of dollars annually in the field of crime. Our penal institutions are now overcrowded with the youth of the nation The savings in crime alone will be worth more than the entire cost of the Townsend Plan pensions."¹⁴⁰

139. The Townsend Plan; ready Reference, p. 62.

140. Ibid, p. 26.

The beauty of the whole thing, according to its advocates, is the fact that the Plan will cost the government nothing. The transaction tax will take care of the entire cost and even furnish a tidy surplus to apply upon the national debt. No new money will be necessary, argue the Townsendites, since the government and the spenders of the pensions will simply be using checks as a medium of exchange and thus the idle credit of the country will be put to work.¹⁴¹ Furthermore, the tax will not come out of the national income, being simply based upon the national business turnover (That is: in some mystic or occult way the fact that the tax is based upon the volume of business and not on the income or profits of those engaged in business will keep the national income from being depleted by the tax). But even if the tax should come out of profits, there will be such a tremendous increase in business that the increased profits will more than make up the amount of the tax.¹⁴² Anyway, in some vague way, the rich and the stock market gamblers are going to be made to bear the major share of the transaction tax since this tax can not be avoided as the income tax often is,¹⁴³ and the tax will collect millions of dollars each day it operates in

141. The Townsend Plan; ready Reference, p. 16, 19-20.

142. Ibid., p. 54-55.

143. Ibid., p. 80.

connection with transfers of stocks and the like on stock and commodity exchanges.¹⁴⁴

Thus it is that the basis of a powerful political machine has been formed. Literally millions of Americans have been convinced that Dr. Townsend is a modern Messiah and that salvation is at hand for this country if we will only reach out and grasp it. They are, in fact, determined that we shall reach out and grasp the blessings offered by this plan, which brings us to the study of the Townsend Plan as a political force.

The Townsend Plan in Politics

The purpose of the organization of Townsend Clubs all over the country was to provide a political force to exert pressure upon the national government as well as the dissemination of information to the members. Detailed information as to how to organize Townsend Clubs is contained in all Townsend literature. So far the political program of the movement has been "to create united action in electing Congressmen and Senators pledged to support and vote for the Townsend Plan."¹⁴⁵ For organization purposes, the country is divided into four regional divisions while the work of co-ordination and general policy is carried on from general headquarters in Chicago.¹⁴⁶ Organizers and state area managers working under the regional offices help to work up enthusiasm, provide clubs with speakers, circulate petitions, and in general tend to the

144. The Townsend Plan; Ready Reference, p. 6.

145. Ibid. p. 90.

matter of bringing pressure to bear upon national office-holders. These officials are paid by salaries or commissions, keeping a percentage of the fees paid by members of Townsend clubs in their territories.¹⁴⁷ The work of the organization is financed by the membership fee of twenty-five cents paid by each new member, sale of literature and pictures and medals bearing the likeness of the founder, and monthly dues of ten cents a month collected from each member. For the total due from its own members each club is responsible to the national organization. In addition, there is an "inner circle" known as the Townsend National Legion whose members pay dues of \$1 per month.¹⁴⁸ In addition, ninety per cent of the profits of the Townsend National Weekly, owned by Dr. Townsend, have been assigned to the organization.¹⁴⁹

Most responsible for the integration of the Townsend clubs into a political force to be reckoned with have been co-founder and national secretary Robert Earl Clements and Publicity Director Boyd Gurley, former managing editor of the Indianapolis Times for which he won the 1929 Pulitzer Prize "for the most disinterested and meritorious public service."¹⁵⁰

147. Time, April 13, 1936, p. 16.

148. Time, Nov. 4, 1935, p. 17-20.

149. Townsend National Weekly, April 13, 1936, p. 1-2.

150. Time, Nov. 4, 1935, p. 20.

Until his break with Dr. Townsend and subsequent resignation from the organization early in 1936,¹⁵¹ Clements was the real driving force in the national organization and the "power behind the throne".¹⁵² That his work of solidifying the national organization was well done has been indicated by the fact that the movement has not even faltered in its stride as a result of his loss.

When the Townsend Plan first began to attract national attention, it was ignored or dismissed by most thinking citizens as too remote or fantastic to worry about. By the time that Dr. Townsend went to Washington in January of 1935 to lobby for it, Congressmen at least knew better. Hundreds of thousands of letters, telegrams, and petitions demanding the enactment of the Plan into law were by that time pouring into the offices of Representatives and Senators. The strength of the movement was so great that few members of Congress felt that they could publicly denounce the Plan even though they regarded it as an economic monstrosity privately. Worst feature of the situation for the embattled Congressmen lay in the fact that while the supporters of the Plan were organized and militant, no organized opposition exists.¹⁵³ It became necessary to do something to end the popular infatuation with

151. Townsend National Weekly, April 13, 1936, p. 1-2

152. Time, Nov. 4, 1935, p. 20.

153. Time, Jan. 14, 1935, p. 14.

the Townsend idea and to emasculate the movement as a political force in view of the threatening attitude the Townsend Clubs were adopting toward Congressmen who would be forced to stand for reelection in 1936.¹⁵⁴

In the press and in the halls of Congress every effort was made to reveal the economic unsoundness of the Plan but with little effect. Letters continued to pour into Congressional offices, and the Townsend leader in Congress, Representative John S. McGroarty of California, introduced an enacting measure in the first session of the seventy-fourth Congress. The issue was avoided in 1935 when Chairman Daughton of the House Ways and Means Committee cross-examined Dr. Townsend in a hearing upon the bill and exposed his economic ignorance so thoroughly that it was possible to laugh the bill out of Congress. Even then a determined effort was made to force the Committee to report the bill; this was scotched only by suggesting to Southern Congressmen that if aged negro parents were to draw a pension of \$200 a month, none of their offspring could be prevailed upon to do a lick of work, thus bringing about the ruin of the South.¹⁵⁵

The second session of the seventy-fourth Congress (1936)

154. Thomas L. Blanton, speech on the Townsend Plan, in the Congressional Record for Jan. 17, and Jan. 20, 1936, (reprint) p. 3-8.
155. Time, Feb. 18, 1935, p. 16.

found the Townsend Plan again a burning and dangerous issue. The myriad supporters of Dr. Townsend were still convinced that the Plan was not only desirable but also sound and workable and only the opposition of the "interests" was preventing its benefits from being given to the country. By this time 63 members of Congress were pledged to the support of the plan,¹⁵⁶ and in Michigan a campaign to fill a Congressional vacancy had just been won by Verner Wright Main who campaigned openly in both the primary and the general election in favor of the Townsend Plan. While his out-and-out Townsend vote was not tremendous, it was large enough to convince many Congressmen that the balance of power in the next elections would be held by the Townsend Clubs. The McGroarty Bill was again before Congress and every member had been asked by Townsendites to commit himself as either for or against such a bill in order that the Townsend National Weekly might inform the membership concerning the attitude of every Congressman.¹⁵⁷

Early in 1936 ugly stories burgeoned in the press that perhaps the Townsend Plan might be something more than a plan to bring about national recovery and provide ease and security for the old. It was rumored that the Plan was simply another

156. Joseph P. Monaghan, Speech on the Townsend Plan, in the Congressional Record for Feb. 19, 1936 (reprint), p. 1.

157. Time, Dec. 30, 1935, p. 6.

racket designed to make enormous profits for its founders at the expense of its aged victims.¹⁵⁸ All efforts to denounce, ridicule, and expose the fallacies of the Plan up until this time had had absolutely no effect except to advertise it.¹⁵⁹ Now in self defense the House voted an investigation to determine whether the movement was a racket and thus discredit the leaders.¹⁶⁰ Investigation showed that Old Age Revolving Pensions, Limited was a closed corporation and that it as well as the Weekly was the sole property of the founders. While a thorough audit of the books of the corporation was out of the question for reasons of expense and jumbled records of the early days of the movement, there seemed to be room for the suspicion that if the founders of the movement had not grown rich from the dimes and nickels of their members, they had at least enjoyed a very tidy income, and they had a property of considerable value. Further, it was by no means certain that all the funds designed for the "war chest" of OARP had ever reached the destination for which they were intended. The investigation was climaxed when after three days of questioning Dr. Townsend walked out, leaving the dazed committee to ponder the question of whether to risk making a martyr of Dr. Townsend by the institution of contempt

158. Time, June 1, 1938, p. 9.

159. Time, April 6, 1936, p. 15.

160. Time, March 2, 1936, p. 14.

proceedings, or to allow the Doctor to make monkeys of the committee.¹⁶¹ The Doctor's reasons for his unlooked for action were released in a statement read to the Committee:

"In view of the fact that I have stated under oath that I have not profited personally from the activities of the Townsend Movement, that I have no money in banks nor in other places above about \$500, nor have accumulated any property whatsoever during the two and one-half years that I have been endeavoring to arouse the people to the enormity of the crime that is being perpetrated against them; and in view of the further fact that I have been denied the opportunity by this committee of presenting to my government and to the Committee the salient philosophy of the Townsend Movement, and that I have been confined to a laconic 'yes' and 'no' in answering vicious questions containing innuendo intended to besmirch my character before the public during this investigation; and further, since to continue this investigation by remaining a party to it will still further advertise the fact to the world that our great government has fallen to so low a state that its representatives will lend themselves to the practice of disseminating vicious and shameless gossip against the character of citizens without any proof of the accusations being adduced; therefore I deem it my duty to announce that I will no longer be a party to this investigation and that I hereby state that I shall be present at no more sessions of this committee unless brought back under arrest."¹⁶²

In addition to the woes of the Congressional investigation and the loss of Clements (page 95) upon the eve of it, Dr. Townsend had at this period still another trial to bear in the loss of his number one Congressional spokesman, Representative McGroarty. The two split, ostensibly when Dr. Townsend refused to countenance the use of the Townsend movement

161. Time, April 13, 1936, p. 16, and June 1, 1936, p. 10.

162. Townsend National Weekly, June 1, 1936, p. 1.

for furthering the political ambitions of Mr. McGroarty.¹⁶³ While these disaffections were hailed in many quarters as the beginning of the break-up of the movement, to Dr. Townsend they simply meant that he was well rid of two self-seeking associates.¹⁶⁴ He immediately announced plans to make the organization more democratic and appointed a board of directors of seven members to assist in the management. With this change he announced that the movement was now stronger than ever and would "now proceed in every Congressional District to seek the election of a Congress favorable to our purpose."¹⁶⁵ With this lull for the moment in the political situation as influenced by the Townsend Plan, the people of the country began to have some of the economic, financial, and political objections to the Plan called to their attention again.

Objections to the Townsend Plan

Within the past few months the greatest share of the opposition to the Townsend Plan has been built around the supposition that the whole thing is a gigantic promotion scheme and that a few of the leaders are systematically bleeding the aged of the country of their ill-spared dimes and quarters for their own enrichment. However, there are

163. Literary Digest, April 11, 1936, p. 5.

164. Time, April 13, 1936, p. 16.

165. Townsend National Weekly, April 13, 1936, p. 1-2.

plenty of legitimate objections to the plan regardless of the intentions or sincerity of those at the head of the movement.

The annual cost of financing the movement would probably be twenty-four billion dollars. It is pointed out by opponents that this amount is almost one-third of our national income for the year of 1929, and fully half of the national income for the year 1934. In other words, application of the Plan would involve a redistribution of the national income to place from a third to a half of the income in the hands of a twelfth of the people.¹⁶⁶

The transaction tax which is to finance the operation of the pension fund is the basis of tremendous opposition to the Plan. Opponents point out that such a tax is an unjust tax since it is levied upon all transactions and thus will not be paid according to ability to pay. The tax will bear heavily upon the poor since even necessities will pay the tax.¹⁶⁷ Further, the ultimate consumer of any product will pay a greater tax than two per cent, since each article will pay the tax on every transaction involved between the production and sale of the raw material. Each tax will be passed on to the next buyer, of course, until the ultimate consumer will

166. Donald Richberg, The Townsend Delusion in Review of Reviews (a reprint), p. 3.

167. C. Jasper Bell, speech on the Townsend Plan Investigation, in Congressional Record for Feb. 19, 1936 (reprint), p. 3.

pay the entire or pyramided tax. Chain stores, operating with fewer transactions between producer and consumer than independent merchants, would be given a new advantage which the independent business men would find impossible to overcome.¹⁶⁸ Moreover, the tax would be doubled at the outset, since everyone would pay it once when he collected his wages, and a second time when he spent them. If he were so unwise or so prodigal as to maintain a bank account, the situation would be even worse, since he would pay the tax again when he made a deposit, pay again when he made a withdrawal by means of a check, and yet again if he converted the check into money and bought goods of any kind with the money.¹⁶⁹ Even with all the hardships this tax would impose, there is grave doubt as to whether it could meet the burden that would be imposed upon it. Others have estimated that even at the 1929 level of business a 6 per cent tax would be necessary.¹⁷⁰

The Townsend idea of restored prosperity as a result of the increased velocity of circulation of money is entirely fallacious according to opponents. Circulation of money by itself does not increase wealth, nor can wealth be created by taxation. It is wrong to assume that a "blood transfusion" would benefit the body politic unless the additional blood

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168. Clare E. Hoffman, speech on the Townsend Plan, in Congressional Record for Jan. 20, 1936 (reprint), p. 2.
169. Albert J. Engel, speech on the Townsend Plan, in the Congressional Record for Feb. 24, 1936 (reprint), p. 1-3.
170. Richard M. Duncan, speech on the Townsend Plan, in Congressional Record for Jan. 23, 1936 (reprint) p. 2.

supply came from an outside source. To continue the metaphor, it would do no good to pump our own blood out of one arm and into the other.¹⁷¹

At this time we have a national debt of some thirty billion dollars, and we have come to feel that this debt mortgages the future welfare of our great grandchildren. We know, certainly, that this debt is not going to be repaid in one year or in five years. It is certain to take from thirty to fifty years. Yet the Townsend Plan proposes to raise every year out of taxation, a sum two-thirds as large as the total national debt, or in other words, we must raise each year a sum approaching the amount we expect to raise with great difficulty over a period of fifty years.¹⁷²

Another serious defect in the plan, say the opposition, is the indiscriminate manner in which the aged are picked as recipients of large pensions. This plan would result in many who are in dire need being heavily taxed to provide \$200 a month for a great number of people who have reached old age well provided for and who do not need the pension. Operation of this plan would entail neglect of cripples, widowed mothers, orphans, and the like.¹⁷³

Not the least of the objections raised is the assertion

171. J. Mark Wilcox, speech on the Townsend Plan, in Congressional Record for Jan. 20, 1936 (reprint), p. 2.

172. Ibid., p. 3.

173. Clarence F. Lea, The Townsend Plan (Washington, 1936), p. 8-9.

that the Veterans' Bureau and the Treasury Department could not possibly handle the additional work that the operation of the Plan would entail. It would be necessary to employ a small army of collectors, administrators, investigators, check writers, and miscellaneous snoopers to administer the law and see that all its provisions are complied with. Salary costs and other expenses would be tremendous, probably approaching the cost of the pensions. The obvious difficulties of administration should in themselves reduce the whole thing to an absurdity.¹⁷⁴

As serious as any charge that has been made against the Townsend Plan is the accusation that it has served to put the whole social security movement in bad repute. As one critic expresses it:

"The pitiful part of the whole thing, however, is that efforts toward the enactment of this impractical and unworkable scheme will greatly impede the progress toward the enactment of sane and proper old-age pension legislation. . . . The most pitiful thing about this entire fiasco is the fact that tens of thousands of old people have been led to believe that \$200 a month can and will be paid to them. . . . And yet there are those in this country who for the sake of temporary applause and immediate gain would deceive these thousands of old people into believing that this Utopian dream can be made to come true."¹⁷⁵

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174. Albert J. Engel, speech on the Townsend Plan, in Congressional Record for Feb. 24, 1936 (reprint), p. 3-4.
175. J. Mark Wilcox, speech on the Townsend Plan, in Congressional Record for Jan. 20, 1936 (reprint), p. 4.

Representative Hoffman of Michigan sums up the arguments of the critics in able fashion when he says:

"The old dodge of asking the critics of the Townsend Plan to produce something better carries its own answer. If the theory be correct, and if a 2 per cent transaction tax will produce a pension of \$200 for those 60 or over; if by taxing all for the benefit of a class will bring prosperity to all, why not make the tax 10 per cent or more, make everybody eligible, everyone happy, and enjoy the benefit of the added prosperity which the greater tax would give?"¹⁷⁶

Future of the Plan

It would be logical to suppose that the Townsend movement had been politically weakened by the loss of Clements and McGroarty, by the leader's loss of "face" as a result of a humiliating ending to the Congressional investigation, and the pronounced opposition developing with the merciless publicity accorded the economic inanities of the Plan. Nothing could be farther from the actual facts of the case. The movement evidently continues to grow; the Townsend National Weekly advertises an increase of 130,000 in circulation since the beginning of the investigation.¹⁷⁷ Letters from supporters indicate that no revelations made by the investigation are capable of shaking the faith of the rank and file in their leader. In fact, Townsendites are convinced that Dr. Townsend

176. Clare E. Hoffman, speech on the Townsend Plan, in Congressional Record for Jan. 20, 1936 (reprint), p. 2.

177. Townsend National Weekly, June 15, 1936, p. 3.

is simply being made the victim of persecution, and that the "interests" will go to any lengths to break up the movement.

The followers of Dr. Townsend are completely sold upon the idea that the Plan is sound, constitutional, and workable. Like the Aberhart followers in Alberta they can not be shown, they can not be reasoned with. Nor are their ranks confined to the aged, by any means. In a talk which I had with the State Area manager for Montana, he told me about large and fast growing Townsend Clubs in which the upper age limit was 32. Attendance at a Townsend Club meeting is revealing. The major part of the attendance will be composed of grizzled oldsters with hope and conviction written plainly on their faces. But there will be a liberal sprinkling of the near-illiterate young and middle-aged. There will also be a number of business men who feel forced to join clubs and at least pay lip service to the cause. Further, the gatherings usually receive respectful attention from the press of most communities, since there is never any hesitation about the application of threats and even boycotts where the need arises. The speaker or speakers will be of the "spell-binder" type, and the theme will always be the same: the Plan will work and only selfish interests are preventing its adoption. Every Congressional district is well organized, and where present officeholders do not endorse the Plan, the Townsend Clubs have their own candidates in the field. I do not feel

that they will control the next Congress by any means, but I do think that in the next Congress there will be more than the present 63 members who are pledged to enactment of the Plan into law. Furthermore, if this year's election is close - as it is very apt to be, there is every possibility that a Townsend bloc in Congress would control the balance of power.

Dr. Townsend, then, has a blind and devoted political following, and while he has not seen fit to put an entire third party ticket in the field, he has seen fit to enter the national field with his endorsement of the third party presidential candidacy of William Lemke of North Dakota. His influence in this campaign is apt to be tremendous, since most political commentators feel that a third party of any strength in the field will very definitely increase the chances for a Republican victory over Mr. Roosevelt this fall.¹⁷⁸ Thus he may yet exercise at least the influence of a Warwick.

Has this wild scheme made any contribution to the cause of social security? There are those who fear that its contribution has been negative and as a result of Townsendism the cause of real social security will be set back for years. There is, of course, the possibility that this is the case.

178. Time, June 29, 1936, p. 10-11.

However, I feel that there is a brighter side. I think that the Social Security Bill was easier to pass than it might otherwise have been because in a measure it stood between the country and something much more drastic. With the Townsend Plan hanging over the heads of Congress like the sword of Damocles, zeal for legitimate social reforms should be increased and opposition in all quarters diminished by this threat of what may happen unless something of a permanent nature is done to relieve human suffering and misery and to guard against the repetition of the evils of the depression. It should be more apparent as a result of the Townsend Plan that the days when the people will patiently suffer in silence are at an end. To this extent Dr. Townsend and his movement have been the benefactors of the search for social security.

CHAPTER VI
SOCIAL INSURANCE

It is impossible to do justice to the subject of social insurance in a study of this kind. So many excellent works on the subject have been written by well qualified writers in this field that it would be presumptuous to attempt anything like a real survey in the limited space that can be devoted to the matter in this thesis. Therefore, little more than an indication of general trends and possibilities of social insurance will be attempted here. Even then it will be necessary to neglect some of the important phases of this subject.

Commercial Insurance as a Security Program

At the present time the doctrine of "rugged individualism" is the subject of much discussion. Any study of social security should, therefore, survey carefully the possibilities of each individual being able to provide security for himself through private agencies and without government assistance or interference. Is it possible to provide real social security by taking advantage of the various types of programs now offered to everyone by our great life insurance companies?

Our life insurance companies answer this question with a decided affirmative. In recent years, insurance companies have expanded the type of business they do until it is now possible to lay out almost any kind of program that the

individual may desire, and further it is pointed out by the companies, there is absolute soundness and safety in such investments. What then are some of the things that may be accomplished by means of life insurance?

The problem of social security is defined by the life insurance companies as the maintenance of income. That is, a person is economically and socially secure only when he has an income that lasts as long as he lasts. The whole matter is based upon the necessity of providing money for current expenses, for future expenses, when unable to work for any reason, and finally to leave money to dependents.¹⁷⁹ While perhaps the greatest volume of business written by life insurance companies consists of policies aiming at providing money for dependents, there are many advantages to a life insurance program other than the payment of death benefits to dependents, the insurance companies point out.

No other investment will provide cash for emergency purposes so readily as life insurance through its policy loan values. Interest rates are always low and uniform when the policyholder borrows from the company, there is no duress for repayment, loans will be made as readily in good times as bad, with no questions asked. Thus life insurance provides a reserve for periods of unemployment, sickness or

179. Diamond Life Bulletins on Life Insurance in General, Economic Security (Cincinnati, 1934), p. zn 2-5.

accident, or a fund which can be drawn upon whenever there is a sudden need for money.¹⁸⁰ Further, the principal of an investment in life insurance is safer than in any other type of investment, and the return upon the investment is both sure and definite.¹⁸¹ In case of disability, the company through its waiver of premium features, will pay the balance due upon the policy and the insured will receive the full benefit called for in the original contract. Further disability features in connection with life insurance policies will take care of the expense of sickness or disability fully in addition to providing for a continuance of income during the period of disability.¹⁸² Life insurance companies will provide a guaranteed income for life after the retirement age of the insured is reached thus providing for complete security in old age.¹⁸³ As for the death benefits of life insurance, in no other type of investment can so large an estate be created with so little investment. Moreover, life insurance is the easiest type of property to pass on to heirs since payments are made direct to the beneficiary without the intervention of the courts as with other property. Also, insurance is subject to few of the inheritance tax

180. Diamond Life Bulletins on Life Insurance in General, Economic Security (Cincinnati, 1934), p. zn 49-68.

181. Ibid., p. zn 58.

182. Ibid., p. zn 69-76.

183. Ibid., p. zn 77-115.

restrictions which prevent other property from being passed on to heirs in its entirety.¹⁸⁴ The life insurance company will act as the trustee of a life insurance estate and pay the beneficiary in a series of monthly payments instead of a lump sum with its accompanying risk of loss through re-investment, swindles, and the like.¹⁸⁵ The types of insurance mentioned do not exhaust the possibilities of life insurance by any means. The investor may almost "write his own ticket" in the field of insurance. The thoughtful father may provide educational policies for his children; many of the risks of partnerships as a form of business organization may be alleviated by partnership insurance which would give the widow of either partner full value of her husband's equity and relieve the surviving partner of the necessity of accepting one of several unpleasant alternatives.¹⁸⁶ The scope of life insurance programs is practically unlimited.

In relation to the safety of investments in life insurance, the insurance companies have a record that is almost unimpeachable. While other businesses, large and small, were undergoing bankruptcy proceedings during the depression, life insurance companies could point to a splendid showing. Although life insurance companies paid out a total of

184. Hamond Life Bulletins on Life Insurance in General, Economic Security (Cincinnati, 1934), p. zn 116-142.

185. Ibid., p. zn 143-150.

186. Seven Wise Men, an insurance pamphlet.

eighteen billion dollars to policyholders and beneficiaries during six depression years, the total assets of all United States companies increased from about seventeen and one-half billion dollars in 1929 to almost twenty-four billion dollars in 1935. Only a relatively few small companies failed during this period. Even in the worst years of depression, the public delivered seven per cent of the national income to insurance companies in the form of premiums. Life insurance companies emerged from the depression (if we have emerged) much stronger than when they entered it.¹⁸⁷

In the light of all these facts, then, isn't it reasonable to assume that our search is over? If life insurance will do all these things, and if it is safe and sound in every way, why search farther? Surely this must be the end of the trail, and we have at last found something which will provide real security. Unfortunately, there is another side of the ledger which must be examined.

The fly in the ointment can be stated briefly. Life insurance companies are organizations operating for profit. They must spend huge sums in advertising; they must have large organizations of workers, branch offices, regional offices, head offices, and the like. They must pay salesmen a commission on the policies sold. Often the commission

187. Time, May 25, 1936, p. 84-85.

may exceed the first year's premium. Dividends must be paid to stockholders. All of these things operate to put the cost of life insurance beyond the reach of the great masses of the people. Perhaps not more than twenty per cent of the people of the United States, those belonging to the upper income groups, can afford a life insurance program comprehensive enough to provide real social security in the face of all eventualities. The insurance program of the large majority of our people is highly inadequate, and wonderful as life insurance may be, most of these people can not afford to increase their programs, and in many cases can not afford to carry insurance at all. The stock argument of life insurance salesmen that they "cannot afford not to carry it" can have little force with people who are able to scrape only a bare existence as it is without the added expense of life insurance premiums. The tragedy of life insurance is that it has offered nothing to the masses.¹⁸⁸

It is true that almost half our population are holders of industrial insurance policies, and upon this fact is based the claim of life insurance companies that their programs do reach the masses. However, industrial insurance will not bear close inspection as a step toward social security. Industrial insurance is primarily funeral insurance, the

188. I. M. Rubinow, Quest for Security.
1918, p. 459-462.

average policy being about \$200. As a rule this amount is scarcely adequate to cover even burial expenses. Expense of collection of premiums (weekly visits by agents) is high and as a result the cost of such insurance is too great. High pressure salesmanship results in many who are in no position to pay premiums, however low, taking insurance. As a result, the lapse rate and the accompanying loss to policyholders is great. Much complaint has been made of unfair treatment on the part of many of the smaller companies. In short, industrial insurance, which is the only type available to the great masses of the people, costs far more than it is worth and benefits are not always certain even then.¹⁸⁹

Thus it is that we are forced to conclude that no uniform program of social security is to be developed through life insurance. For the upper twenty per cent of our population who can afford it, life insurance offers the ideal investment. The remainder of our people must search elsewhere if real security is to be found.

Voluntary or Compulsory Social Insurance?

Since the machinery of "rugged individualism" fails to provide adequate security for the mass of the people, we must turn to some other source. Before we consider the state as a provider of social security through social insurance, it

189. I. M. Rubinow, The Quest for Security.
1916), p. 463-476.

might be wise to consider what social insurance has to offer and whether it provides a solution.

Social insurance has been defined as:

" . . . the policy of organized society to furnish that protection to one part of the population which some other part may need less, or if needing, is able to purchase voluntarily through private insurance."¹⁹⁰

Or more fully as:

" . . . a relatively inexpensive form of insurance devised by the state to guarantee the wage-earner and his dependents a minimum of income during periods when, through forces largely beyond his control, his earnings are impaired or cut off. It aims to secure the worker and his family against the economic emergencies resulting from the temporary or permanent loss of a job through unemployment, sickness, invalidity or old age, and against those other emergencies which arise from the death of the bread-winner, the illness and burial of a member of the family, the birth of a child, or the burden of supporting a large family. It tries to establish a minimum of economic sustenance below which no one shall fall. At the same time, it endeavors to eradicate much of our poverty and destitution by prevention rather than relief and alms. It strives to dam at their origin the springs feeding the sea of destitution. It attempts to substitute self help and social justice for the demoralization incident on public and private charity."¹⁹¹

Either of these definitions will indicate that the achievement of the goal for which social insurance is striving will be the achievement of a real measure of social security.

190. I. M. Rubinow, The Quest for Security, (New York, 1916), p. 503.

191. Abraham Epstein, Insecurity a Challenge to America, 3rd Edition, (New York, 1936), p. 23.

Is it reasonable to suppose that such a program may be realized through social insurance?

The experience of Europe furnishes the best answer to this question. It must be understood at the outset that even the most ardent supporters of social insurance do not feel that there is a perfect system in existence any place in the world. No doubt all systems fall short of accomplishing the things their advocates hope for. Yet to the extent that experience has shown social insurance to be successful in achieving any measure of security, to that extent can social insurance be considered to go beyond anything yet proposed in the search for security.

The origins of social insurance in Europe are lost in the darkness of the Middle Ages, but modern social insurance under real state supervision began in Germany with the inauguration of its sickness and maternity insurance system for industrial wage-earners in 1883. From here, social insurance spread to practically every country in Europe and to other classes of wage earners, as well as into other fields of social insurance: unemployment, old-age, health, accident, and so on. All Europe, after half a century's experience, has been able to make enthusiastic reports concerning the benefits of such insurance. Various investigations have revealed that longevity has increased, efficiency and health among workers have improved, and that causes of political

unrest have been removed as a result of the introduction of social insurance into Europe. A great many mistakes have been made of course, and obviously the chaos caused by the world war and the later hardships of the depression have brought about the breakdown in whole or in part of many of the European systems. Nevertheless, most Europeans have far more right to be proud of the records of their countries in depression than we have to feel in any way pleased about the showing of our own. At least Europe had made some attempts to cover the risks inherent in the present system, while we allowed the depression to find the great mass of our people without the slightest shadow of protection.¹⁹²

If it is agreed, then, that social insurance is desirable in the United States, and that the state should be the insuring agency, there still remains the question as to whether insurance of this nature should be voluntary or compulsory.

Here again we may be guided by the experience of Europe. European nations with many years of experience with voluntary plans have found them to be absolute failures. Even with the aid of large government subsidies, voluntary plans have failed to extend the benefits of social insurance to those classes of the population most in need of its protection. The poorest workers either cannot or will not take advantage of optional

192. Abraham Epstein, Insecurity a Challenge to America, 3rd Edition, (New York, 1936), p. 27-31.

insurance plans.¹⁹³

In this connection we need not accept the experience of Europe as the last word, however. We have had some experience with voluntary governmental insurance in the United States with the same results as in Europe. In 1907 Massachusetts enacted a voluntary system of Savings Bank Life Insurance. The savings banks, under the supervision of the State Insurance Commissioner, were authorized to write both life insurance and old age annuity policies. In spite of the fact that the banks offer insurance at considerably lower rates than private insurance companies, the amount of insurance in force has grown very slowly and is small in comparison to the amount written by private companies operating in the state. In 1911, the state of Wisconsin began the writing of insurance and annuity contracts. In the first twenty years of operation, the state had written less than two million dollars worth of insurance and had no annuities in force at all. The experience of the United States government with veterans' insurance has provided another excellent example of the ineffectiveness of voluntary insurance. Approximately twelve per cent of the veterans have taken advantage of the government's insurance plan.¹⁹⁴

193. Epstein, op. cit., p. 32-33.

194. Ibid., p. 33-34.

The only logical conclusion to be drawn from the study of social insurance plans in operation is that voluntary schemes, however attractive, do not work. Therefore, one of the fundamentals of social insurance is that compulsion is necessary to extend the benefits to all those who need it. While the idea of compulsion does, indeed, deny the "right to be improvident" it carries with it many advantages. Being compulsory, the system is freed of the expense incident to competition; additional expense is eliminated by administration by public officials, thus avoiding the inflated salaries normally paid insurance executives. As a result the costs of the system are greatly reduced; administrative costs of compulsory systems rarely exceed ten per cent as compared with the normal overhead of from thirty to fifty per cent common in private companies. Moreover, the waste incident to surrendered and lapsed policies is avoided, and profits are eliminated. This is a desirable step for "since protection against social misfortune has become absolutely essential to workers, even as water, light, and sanitation, no institution should be permitted to grow rich out of this vital need."¹⁹⁵

A second fundamental of social insurance is the principle that the costs must be distributed among all elements of

195. Epstein, op. cit., p. 32-35

society. The burden must not be placed entirely upon the workers since they are least able to bear it. The state should bear part of the cost of any social insurance plan. All modern governments have been forced to the realization that the state must furnish some measure of security to the economically helpless. There is at the same time a distinct possibility that state participation in social insurance may ultimately save the government a great deal of money. The state should raise its share of the money to be spent upon social insurance through income and inheritance taxes, since this will secure the participation of those deriving large incomes from sources other than industry, who might not otherwise participate in the program. Further, these taxes are perhaps the only kind which cannot be shifted to the consumer. Employers, of course, would contribute to the cost of the program. The right to expect this contribution is based upon the fact that our industrial system is responsible for all the hazards which confront the wage-earner, and further the employers will be direct beneficiaries of social insurance through the increased efficiency of the workers. The contribution of the employer would probably be in the form of a small percentage tax upon the payroll. Finally, there should be contributions from the workers themselves - a small percentage of the wages of each to be deducted for this purpose each payday. It can be demonstrated

that workers' contributions are not essential on the basis that the workers are not responsible for the economic ills of our system, and on the further basis that they will share indirectly, as consumers and as tax-payers, in the contributions of the employers and the state anyway, and a direct contribution would constitute a three-fold payment upon their part. Nevertheless worker's contributions are favored on psychological grounds. Benefits of workers' contributions are to be found in the protection of their self respect, and in the fact that such direct contributions serve to distinguish social insurance benefits more clearly from poor relief or the "dole". Contributions by workers encourage thrift, and far more important, give the insured workers a definite stake in the plan and make their participation in the administration of the program a matter of right.¹⁹⁶

Types of Social Insurance

A comprehensive program of social insurance must include insurance against industrial accidents, health insurance, old-age, and unemployment insurance. At the present time, it is suggested that it would be very difficult to institute a social insurance program to cover all classes and it is further suggested that at first the figure of \$3000 be taken arbitrarily as the salary figure below which

196. Epstein, op. cit., p. 37-49.

there would be insurance coverage. There would be further difficulties in the inclusion of agricultural workers in the group to be covered, but it is expected that this could be ironed out in time.¹⁹⁷

In the field of accident or workmen's compensation insurance, we find that there has been the most marked progress along the line of social insurance in the United States. In the past fifty years the United States has come a long way since the days when the injured workman had to prove that the employer was at fault in an industrial accident - a thing almost impossible to do since the cards were always stacked against the employee. At the present time, the doctrine of the employer's liability is pretty well established and workmen's compensation laws have been enacted in 44 states. However, the fact that four states still do not have them is an indication that the situation is not completely satisfactory. Further, the laws of many states give little real protection, and in many others workmen are insured in private casualty companies which avoid a satisfactory settlement whenever possible. In other states unsound systems have been set up with the result that while the workman has some degree of insurance, he has no assurance that full benefits will ever be received. There is a crying need in the

197. Epstein, op. cit., p. 52-56.

United States for a uniformly government administered system of accident compensation insurance which will provide assured and uniform benefits.¹⁹⁸

There has long been a need for an adequate system of health insurance to cover workmen and even members of their families as a result of the loss suffered from disease and non-industrial accidents. Organized medicine has been violently opposed to health insurance due to the fear that it would lead to a system of state medicine.¹⁹⁹ Nevertheless, the precarious living conditions of the masses make it impossible for them to accumulate any reserve against periods of sickness, and the few free clinics and the like now in existence are wholly inadequate to cope with the situation. As a result the masses of the people do without medical attention except in the gravest emergencies. At the same time, there are great numbers of doctors whose practices are much too small to furnish them a decent living and who constantly feel the pinch of poverty. The majority of the doctors would benefit from a state system of health insurance just as thoroughly as would the class of people who cannot afford proper medical care under the present system.²⁰⁰

198. Rubinow, op. cit., p. 129-141.

199. American Association for Social Security, Social Security in the United States, 1935 (New York, 1935), p. 51

200. Ibid., p. 44, 51-54.

Another waste which health insurance would eliminate is the loss which results from the inefficiency of the worker who remains at work after becoming ill or who returns to work too soon after an illness in order to cut his wage loss to a minimum.²⁰¹ Since the incidence of sickness, accident, and the like can be estimated with a fair degree of accuracy, and since, therefore, an actuarially sound plan can be worked out, it seems illogical that we should not have insisted upon health insurance in the United States long since.²⁰²

The best thought in the health insurance field today calls for a compulsory, state-administered system. The waiting period between the beginning of illness and beginning of benefits should be short, and the system should include the family of the workman as well as the worker himself. At the very least there should be provision for maternity benefits in addition to protection for the wage-earner.²⁰³ While it is often argued that no time limit for the receiving of benefits should be set, a benefit period of twenty-six weeks is accepted by most authorities as sufficient to cover all but a few cases for which additional allowances could be made as need was shown. Benefits should include the cost of all medical attention, hospitalization, drugs, and all other

201. Rubinow, op. cit., p. 586-588.

202. Epstein, op. cit., p. 401-411

203. Amer. Assoc, for Soc. Sec., op. cit., p. 45-49.

medical supplies. In addition, part of the wages (half to two-thirds is usually recommended) should be paid as benefits during the period of illness.²⁰⁴ Benefits to be expected from the operation of health insurance, judging from the experience of other countries, would include, in addition to added security for workers: improvement of the economic status of a great share of the medical and dental professions, improvement in the public health with a concomitant improvement in the efficiency of workers, and finally, prevention of illness.²⁰⁵

There is little to be said in opposition to the contention that the modern state must be responsible for its indigent aged. Our experience in the United States reveals that a large share of our population reaches old age without independent means. In fact, one investigation shows that at age 65, 370 men out of 1000, or 37 per cent, are dependent and have no property of any kind to replace their lost earning power. At 75, approximately 80 per cent are dependent upon public or private charity or upon relatives. At age 75 fewer men have at least \$100 than at age 25 in spite of the fact that they have had the intervening fifty years to accumulate.²⁰⁶

204. Rubinow, op. cit., p. 180-181.

205. Amer. Assoc. for Soc. Sec., Social Security in the United States, 1934 (New York, 1934), p. 100-105.

206. Diamond Life Bulletins, op. cit., p. zn 18-20.

Within the last few years the United States has become old-age pension minded, and a great deal has been done to relieve the distress and suffering of those who have reached a dependent old age. In the past, our only official recognition of the need of the aged took the form of institutional aid - the humiliation of the poor-farm. While the present system of old-age, non-contributory pensions is a distinct improvement, advocates of social insurance are quick to point out that such pensions are by no means old-age insurance. Although the pension system is neither uniform nor general in the United States, it has proved a godsend to the aged where it has been in operation. Nevertheless, the time has come, feel the advocates of social insurance, for a distinct step in advance. Instead of pensioning off a small portion of our aged workers, we must insure all of them. The system should be compulsory and contributory. Thus benefits will be paid as a matter of right on attaining old age rather than of a basis of abject need.²⁰⁷

From the viewpoint of the actuary, old-age is perhaps the most insurable of all risks. Definite costs and benefits can easily be determined, and the number to receive benefits at any future time can be estimated with a high degree of accuracy. It would thus be possible to accumulate

207. Amer. Assoc. for Soc. Sec., Social Security, 1934, p. 58-59.

in advance a fund which would pay benefits to the individual as he reached the benefit age. The accumulated fund system, however, would have the disadvantage that the premium rate, for those of advanced age when the system was first instituted, would be almost prohibitive due to the limited number of years they would have left to build up an adequate fund. Suggested as more practical is the pay-as-you-go system. Under this plan the workers below the age of 65 (the retirement age suggested in most plans) would contribute at the same flat rate towards the support of those over 65. In return, they would themselves be assured by the state of support from the insurance system when they in turn reached the retirement age.²⁰⁸ Probably a combination of these two suggestions would produce the best results. The state might pay part of the premium of those whose premiums would be very high when the plan was adopted, allowing this group to pay a flat rate. After this first group had been cared for, the accumulated fund could be expected to handle the benefit payments more readily than a pay-as-you-go system which would always be hurt when the need for retrenchment in the field of government expenditures arose. The benefits to be expected, most authorities agree, should run between \$40 and \$75 a month, depending somewhat upon section of the country and earnings before retirement.²⁰⁹

208. Amer. Assoc. for Soc. Sec., op. cit., p. 58-59.

209. Ibid., p. 60-63.

It is not intended to dismiss the entire subject of old-age security with this brief discussion. The object of this discussion is simply to show that the leaders in the field do not accept the old-age pension as the last word in security for the aged. The subject of pensions will be considered more fully in the next chapter in connection with the social security program of the New Deal.

Unemployment insurance is probably the most controversial type of social insurance. Until the depression brought such a profound change in our thinking, unemployment insurance was simply ignored or roundly condemned without a hearing as undesirable and unAmerican. Even with the depression fresh in our minds, there is not agreement that unemployment insurance is even a partial solution to our problems. There is, however, a great deal to be said in favor of such a system. It is being pretty generally realized that the prospect of the loss of his job is about the most disintegrating thing that can happen to a man. If there is any sacredness about the home, unemployment does more than any other one thing to destroy that sacredness. Perhaps one of the best summaries of the argument in favor of some system of unemployment insurance is that of Bishop Francis J. McConnell, president of the American Association for Social Security:

"We were told during those times when industry was having things its own way in this country, that without a reserve of labor we could not have any successful industrial system. I have heard great

industrialists stand up and say: 'We have got to have a sufficient reserve of labor from which we can draw in times of prosperity, and when we can discharge in times of depression.' Invariably this illustration of an army is used. What can an army do without reserves? The point overlooked is simply this, that army reserves are paid wages while they wait and are kept as a distinct part of the army. If we are going to have an army of reserve labor it of course becomes a social responsibility to take care of it when unemployed."²¹⁰

Everyone is familiar with the suffering and demoralization resulting from the unemployment of the depression. Yet in the midst of all the distress, we have never even bothered to obtain really reliable figures as to the extent of unemployment. During the depths of depression it was estimated that there were as many as fifteen million unemployed. That we have little right to feel that the depression is over is indicated by the American Federation of Labor's estimate of twelve and one-half million unemployed in January, 1936.²¹¹ The situation is aggravated by the fact that there has been a very marked increase in the cost of living during the past two years.²¹² It is no exaggeration to say that "the continuance of the American social structure depends on the security we give the involuntarily idle."²¹³

210. Amer. Assoc. for Soc. Sec., Social Security, 1934, p. 166.

211. Time, March 9, 1936, p. 15.

212. Spokane Spokesman-Review, July 15, 1936, p. 4

213. Epstein, op. cit., p. 221.

The experience of other countries has shown that no other method will provide security for the involuntarily idle to the same extent as unemployment insurance. At the present time there are thirteen nations who give their workers some measure of security by means of a compulsory unemployment insurance system, while in ten others there are voluntary systems. It is true that under the stress of the depression and political unrest, many of these systems have broken down in whole or in part. In spite of this no other nation has made such a deplorable showingⁱⁿ the field of security for the unemployed as our own United States, the richest of all nations.²¹⁴ Those who feel that the breakdown of various European systems proves the failure of unemployment insurance must reflect that most of these systems were instituted or extended just before the beginning of the depression and its great and unexpected burdens for which the systems had lacked the time to prepare. Therefore, it may be maintained that the difficulties experienced by these various nations "no more prove the inutility of insurance against unemployment than the financial difficulties of a life insurance venture which was instituted just as a great plague began to decimate the population, would prove the unsoundness of life insurance."²¹⁵

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214. Amer. Assoc. for Soc. Sec., American Doles Cost More Than Unemployment Insurance: An Open Letter to Members of Congress and State Legislatures (New York), p. 1.
215. Barbara Nachtrieb Armstrong, Insuring the Essentials, p. 520; quoted in Epstein, op. cit., p. 321.

The British system of unemployment insurance has been the most successful of all those tried abroad. First passed in 1911, the Unemployment Insurance Act was amended at several times until the system came to include the workers of practically all industries whose annual salary was less than \$1250. This extension was completed just prior to the depression of the early twenties, and its benefits were confused, at least in the American mind, with out-of-work donations made to returned soldiers to whom the unemployed benefits of the insurance system did not extend. Thus the unsavory term "dole" began to be applied to the benefits by Americans and it began to be looked upon with an unholy horror by our leading industrialists. The pressure put upon the accumulated fund by the depression exhausted the funds, making it necessary for the state to lend, and later grant outright, money to maintain the insurance plan. Moreover, it became necessary to extend the period of benefits beyond the time originally contracted for. This system of extended benefits was regarded as temporary at the time, but it has been followed ever since, including the years of the present depression. The act is administered through local employment exchanges. When a worker loses his job, he registers at his local employment exchange, and after a short waiting period he begins to receive his benefit payments through this office.

He is not forced to show need of benefits; the mere fact of unemployment entitles him to receive the payments due him. He must report to the exchange once a day (once a week in some localities) to be placed in a job in case the exchange should have employment to offer. The worker must accept employment offered provided that it is of the type for which his training and experience fit him, does not entail moving to some other district, and pays the prevailing wage for that type of work. All workers and employers contribute to the central fund. Originally the state paid slightly under one-third of the cost plus the cost of administration, but at the present time makes up the deficit between the amount of the employers' and employees' contributions and the needs of the system. This has been misrepresented as the "dole" in America, but it will readily be seen that the workers through their contributions are entitled to participate in the benefits as a matter of right, and the extension of benefits simply does well what American relief did poorly. The British have accomplished without loss of self-respect or initiative that which we have been able to do only at the cost of humiliation and demoralization as a result of our haphazard and bungling methods.²¹⁶ Further, the cost to the British has been both absolutely and relatively less than the cost of relief in the United States, and the

216. Epstein, op. cit., p. 352-371.

average British allowance has been nearly three times as adequate as the average relief dole in the United States. Again, the benefits in Great Britain are both regular and certain; while the American taxpayer has borne the entire cost of relief, the British taxpayer was relieved of almost half the cost of the so-called "dole" as a result of the contributions from employees and industry to the insurance fund. Due to its intelligent and adequate spending policy through a comprehensive system of social insurance the British government was not forced to augment its relief expenditures by pouring billions of dollars into N.R.A., A.A.A., P.W.A., or other like enterprises.²¹⁷

Before a comprehensive system of unemployment insurance will be possible in the United States, it will be necessary to reform the public thinking along certain lines. We must divorce from our principles the doctrine that such insurance must be self-sustaining and that the receipts in the form of premiums must balance the expenditures in the form of benefits. Whether we like it or not, we are going to be forced to the admission that the care of the unemployed in a manner that leaves their self respect intact has become the duty of a modern government. The question of the actuarial soundness of unemployment insurance is no longer at stake.

217. Amer. Assoc. for Soc. Sec., Open Letter, op. cit., p. 2.

As stated by one of the foremost students of the subject:

"Under conditions such as have prevailed in Great Britain for nearly a decade, and in this country since 1929, it is sheer nonsense to bother about the metaphysical question whether unemployment is an insurable risk or not. The real concern of social insurance is security, rather than the actuarial principles which must govern private insurance. The two have little in common. . . . Social insurance is insurance even if not a penny of the funds are derived directly from the beneficiaries or from industry. A social insurance fund is solvent even if part or all of its funds come from general taxation. What matters in social insurance is that the risk be distributed as widely as possible, that those who suffer most shall not be made to bear the heaviest burden, and that relief be given as a matter of right in a dignified and self-respecting manner. Social insurance seeks not to stay in the insurance business but to accomplish the socially desirable things."²¹⁸

Further, we must understand that unemployment insurance is not being proposed or advocated as a remedy for unemployment, but as a remedy for the distress caused by unemployment. In the words of one investigating committee:

"Unemployment insurance will not abolish unemployment, nor is it chiefly intended to reduce unemployment or to regularize work. Fire insurance is not aimed at abolishing fires; life insurance does not abolish death; accident insurance does not abolish accidents. Any properly designed and soundly managed insurance system will stimulate efforts toward reduction and elimination of the risks against which protection is sought. But insurance is based upon the assumption that the risk itself is inevitable, however much it may be reduced, and that protection against it may be secured most economically by the method of insurance, rather than in any other way."²¹⁹

218. Epstein, op. cit., p. 319.

219. Report of the Ohio Commission on Unemployment Insurance, Part I, p. 51-52; quoted in Epstein, op. cit., p. 315.

Since unemployment insurance is not confined to the boundaries of any one state or locality, the federal government should take a decided lead in the establishment of unemployment insurance in the United States. There are a great many constitutional difficulties in the way of a uniform system established by the federal government in this country, but it would be possible to gain some degree of uniformity by means of national subsidies to states.²²⁰

The best thought along the line of social insurance holds that in the United States, as elsewhere, the system should be compulsory, and that the cost should be borne by contributions from employees, employers, and the state. Employment exchanges similar to those of Great Britain should be set up to administer the system. There should be a short waiting period before the beginning of benefits, and it is important that benefits should be paid upon the basis of the existence of unemployment and not upon the basis of a means test. Benefits should be at least fifty per cent of the wages and, if possible, two-thirds of wages. Private insurance capital and initiative should be excluded from this field. Benefits should be extended where necessary, as in the British system, to cover the duration of unemployment. In normal times a benefit period of twenty-six or thirty weeks will cover the needs of most cases.²²¹ However, if a system limiting the

220.. Epstein, op. cit., p. 664-665.

221. Rubinow, op. cit., p. 451-457.

time during which benefits may be received is adopted, it will be necessary to put our relief system on a permanent basis to provide for adequate relief when the right to unemployment insurance benefits has been exhausted in times of emergency.²²²

The benefits to be derived from a system of unemployment insurance in this country would be tremendous. Relief rolls would be lowered by fifty per cent, it is estimated, within a few months and eventually farther than that.²²³ The savings in wrecked human lives and lost self respect among the unemployed cannot be measured in dollars and cents, but this feature alone would be worth the cost of the scheme. It has already been indicated (page 134) that the savings to taxpayers would be considerable. In short, there are so many advantages to be found in such a scheme, and so few real objections to it that we can scarcely afford to leave the present risks uncovered. Unemployment insurance is no panacea, and it will certainly not remove all the ills resulting from unemployment and periods of depression. Nevertheless it will do much to cushion the shock of such emergencies and prevent the distress resulting from long periods of unemployment from ever again becoming so deep as it has been during the past five or six years.

222. Amer. Assoc. for Soc. Sec., Social Security, 1934, p. 156-160.

223. Amer. Assoc. for Soc. Sec., Social Security, 1935, p. 154.

What contribution does social insurance offer to the search for social security? First of all it offers a plan - not a panacea designed in some mysterious way to cure all the ills of man, but a sound workable idea within the realm of financial and economic possibility. It gives an opportunity to make real progress along the road of security, and while it makes no claims to abolish insecurity completely, it will at least reduce the suffering and misery resulting from the "mis-functioning" of our system to a minimum. Secondly, this movement for social insurance and the workers in this field provide a real degree of leadership to the largely unorganized body of public opinion which has been giving real thought to the subject of security. Social insurance provides a rallying point, as it were, for those who realize our needs and yet cannot stomach the panaceas of our many economic quacks. If the search for social security is ever to achieve its goal under our present social structure, it will be under the leadership of a comprehensive and adequate system of social insurance.

CHAPTER VII.

THE NEW DEAL AND SOCIAL SECURITY

The Program of the Administration

To the many ardent workers for a program of social insurance to provide security in the United States, such a program has seemed as remote as it was desirable. Even the most optimistic supporters of social insurance had become resigned to a long period of educational work before the attainment of their goals could be realized. However, the entire picture was changed by President Roosevelt's message to Congress on June 8, 1934. Said the President in that message:

"Our task of reconstruction does not require the creation of new and strange values. It is, rather, the finding of the way once more to known, but to some degree forgotten, ideals and values. If the means and details are in some instances new, the objectives are as permanent as human nature."

"Among our objectives I place the security of the men, women, and children of the nation first."

".... If, as our Constitution tells us, our Federal Government was established among other things 'to promote the general welfare', it is our plain duty to provide for that security upon which welfare depends."

".... We may well undertake the great task of furthering the security of the citizen and his family through social insurance."²²⁴

Even before the transmission of this message, the President had created a Committee on Economic Security to make a study of the problem of security and to make recommendations

224. Quoted in Epstein, op. cit., p. 670.

for a legislative program which would at least be a beginning toward the realization of the objective presented in the message to Congress.²²⁵

This stand by the President had a remarkable effect upon the public attitude. The entire country became social insurance minded and enthusiasm reached a high pitch. Candidates for office all felt the necessity of endorsing a social insurance program, and conservatives as well as liberals all over the country endorsed the President's announcement. When, on November 6, 1934, the people of the country gave the President an overwhelming majority of his own party in Congress, it simply became a question of what form of social insurance to adopt.²²⁶

The Committee on Economic Security, with the assistance of several advisory committees and technical boards, investigated the social insurance experience of other countries and the needs of the United States, and submitted recommendations for a fairly comprehensive program to the President upon January 15, 1935. The recommendations of the Committee included a program of unemployment insurance, and old-age security program based upon both non-contributory pensions and contributory annuities, a program of aid to dependent children, extension of public health and child health services,

225. Report to the President of the Committee on Economic Security, U. S. Government Printing Office (Wash., 1935) p. v.

226. Epstein, op. cit., p. 670-671.

and continuation and extension of educational and rehabilitation services. With the exception of the unemployment compensation program, the Committee recommended that the national government give state subsidies for the purpose of setting these programs in motion. All types of insurance were to be carried out on a Federal-State basis, with the exception of the old-age annuity plan which was to be national and under the direct supervision of the national government. States, in order to receive grants-in-aid to put their plans into effect, should meet certain requirements, it was recommended. Otherwise there would be complete freedom of choice by each state as to the exact details of its own plan. Administration and correlation of the system would be the work of a social insurance board to be set up within the department of Labor, while the financial side of the program would be under the supervision of the Secretary of the Treasury, according to the recommendation.²²⁷

Bills loosely embodying these recommendations were introduced into both the House and Senate almost immediately. After some months of hearings upon the bills and ironing out of differences between House and Senate versions, the Social Security Act passed both houses with thumping majorities and received the President's approval upon August 14, 1935.

227. Report of the Committee on Economic Security, op. cit., p. 1-50.

Congress more or less botched its job, however, and thereby delayed the beginning of the operation of the program set up by adjourning without making any appropriation for the subsidies provided for or the administrative expense of the Act.²²⁸ In fact, there was no appropriation made to put the bill into force until Feb. 11, 1936.²²⁹ Thus began a new epoch in the search for social security in the United States.

Congress chose to make the Social Security Act an omnibus measure, including several distinct measures for social security in the one act. The act includes provision for: unemployment compensation, old-age assistance and old-age benefits, security for children, aid to the blind, extension of the public health services, and vocational rehabilitation. We shall deal here with only the first three at any length. While the others are important and represent a real advance in the social security field, they were patently designed as temporary expedients until such time as a real health insurance measure can be expected to meet with universal approval.²³⁰ Also, these measures can scarcely be held to bear the same importance to the act or to the program begun as the features providing for unemployment insurance and old-age security.

Federal grants-in-aid to states with approved plans for

228. Epstein, Our Social Insecurity Act, in Harper's magazine, Dec. 1935 (reprint), p. 55.

229. Social Security Board, press release for April 9, 1936, p. 1.

230. Time, Jan. 28, 1935, p. 23.

aid to dependent children are provided for in Title IV of the act. The Federal government will pay to each state one-third of the amount granted by the state under such a plan, except that the Federal grant will be limited to \$6 for the first and \$4 for each additional dependent child in each family.²³¹ Seventeen states had approved plans on March 31, 1936.²³² The provisions for maternal and child health services allow grants-in-aid to states with approved plans, the grants to match the amounts expended by the states for this purpose. Grants to states, however, were to be apportioned on the basis of \$20,000 grant to each state and the remainder of the grant to be distributed on the basis of need and proportion of live births in each state. The object of this feature of the act is the strengthening of local and state health services and the extension of such services to rural areas.²³³ Grants-in-aid are to be made to states with approved plans for furnishing aid to crippled children. States must match a grant of \$20,000 plus a share of an additional \$1,830,000 granted to the states on the basis of need.²³⁴ States are to be granted \$10,000 each and an additional grant of a yearly total

231. Social Security Act, Title IV, P. 9-11.

232. Social Security Board, press release for March 31, 1936, p. 1.

233. Social Security Act, Title V, p. 11-13.

234. Ibid., p. 13-15.

of \$990,000 to be divided among the states upon the basis of rural population for the purpose of child-welfare services in general in rural areas. No specific provision for state participation as to cost of this service is made in the act.²³⁵

These, briefly, are the provisions of the act relating to child security as such. It must be recognized, however, that any of the various features of the act which establish some degree of security are child security provisions in that they assure the children of the country "a childhood rather than the premature strains of the would-be child breadwinner."²³⁶

Grants-in-aid are made to states having approved plans for aid to the blind. The Federal government grants an amount equal to one-half the total sum expended by each state, except that the Federal participation is limited to \$15 for each individual receiving aid. No Federal grant will be made for inmates of any state institution. An additional grant of five per cent of the amount spent for aid to the blind will be granted to the states for the administration of their laws.²³⁷ Eighteen states had approved plans in operation by March 31, 1936.²³⁸

235. Social Security Act, Title V, p. 15-16.

236. Report of Committee on Economic Security, p. 35.

237. Social Security Act, Title X, p. 28-30.

238. Social Security Board, press release for March 31, 1936. p. 1.

Grants for public health work to the total of \$8,000,000 annually are to be made to the states on the basis of population, special health problems, and financial needs. This represents a considerable extension of the present Federal program. The entire amount granted is to be used for the prevention of preventable sickness. No specific provision for financial participation on the part of the states is made in the act.²³⁹

Existing programs for vocational rehabilitation of the physically disabled are to be extended through grants-in-aid to be distributed to states to the amount of \$1,938,000 in addition to the amounts available under provisions of the existing law.²⁴⁰

In the field of old-age security, the Social Security Act sets up two complementary systems. The purpose of one is to aid states in giving immediate assistance to aged individuals on a basis of need. The second provides for future annuities to persons over the age of 65, based upon their contributions from wages.²⁴¹

The old-age assistance feature of the act provides for grants-in-aid to states having approved plans. To secure approval, a state plan must:

239. Social Security Act, Title V, p. 16.

240. Ibid., Title V, p. 16.

241. Social Security Board, A Brief Explanation of the Social Security Act, (Wash., 1936), p. 3.

"1. Provide that it shall be in effect in all political subdivisions of the State, and, if administered by them, be mandatory upon them.

"2. Provide for financial participation by the State.

"3. Either provide for the establishment or designation of a single State agency to administer the plan, or provide for the establishment or designation of a single State agency to supervise the administration of the plan.

"4. Provide for granting to any individual, whose claim for old-age assistance is denied, an opportunity for a fair hearing before such State agency.

"5. Provide such methods of administration . . . as are found by the Board to be necessary for the efficient operation of the plan.

"6. Provide that the State agency will make such reports . . . as the Board may from time to time require.

"7. Provide that if the State or any of its political subdivisions collects from the estate of any recipient of old-age assistance any amount with respect to old-age assistance furnished him under the plan, one-half of the net amount so collected shall be promptly paid to the United States . . ."

Further, a state plan must not impose:

"1. An age requirement of more than sixty-five years, except that the plan may impose, effective until January 1, 1940 an age requirement of as much as seventy years.

"2. Any residence requirement which excludes any resident of the State who has resided therein five years during the nine years immediately preceding the application for old-age assistance and has resided therein continuously for one year immediately preceding the application.

"3. Any citizenship requirement which excludes any citizen of the United States."

The grants to states with approved plans are to be one-half of the amount expended in the State for old-age assistance (exclusive of institutional aid) except that the Federal contribution is limited to \$15 per month for each recipient

of aid. An additional five per cent of the grant to each state is paid the States for administrative expenses.²⁴² By April 21, 1936 twenty-nine states and the District of Columbia had approved old-age assistance plans in operation and seven other states had submitted plans for approval.²⁴³

Under the old-age benefits or annuity feature of the act, regular benefits are to be paid to qualified individuals as a matter of right out of an "Old-Age Reserve Account" created in the Federal Treasury. To qualify for benefits under this section of the act, the individual must be at least 65 years of age, and have received wages of at least \$2000 after September 31, 1936 and before attaining the age of 65. He must also have been employed in some five different calendar years after December 31, 1936 and before reaching the age of 65. Classes of services excluded from the provisions of this part of the act include: agricultural labor, domestic service, casual labor, service on a vessel documented under the laws of the United States or any foreign country, service for Federal or State governments or some political subdivision or instrumentality of either, service for non-profit literary, religious, scientific, charitable, or educational organizations. Individuals who qualify

242. Social Security Act, Title I, p. 1-3.

243. Social Security Board, press release for April 21, 1936, p. 2-3.

under this act are entitled to benefits from the time they reach 65, or from January 1, 1942 whichever is later - benefits to continue for the remainder of their lives. Benefits will be paid at the rate of one-half of one per cent on the first \$3000 of wages earned after December 31, 1936 (and prior to reaching age of 65), one-twelfth of one percent of the next \$42,000 of wages earned, and one-twenty-fourth of all wages over \$45,000, except that the minimum monthly benefit will be \$10 and the maximum \$85.00. Employees, whose total wages or length of employment before reaching the age of 65 are not sufficient to qualify them for benefits, will be entitled to a lump-sum payment of 3 and one-half per cent of wages upon reaching retirement age. Any individual over the age of 65 who receives wages in any month will have his benefits reduced one month for each month in which such wages are received. If any individual dies before reaching the age of 65, three and one-half per cent of the wages considered for the purpose of the act will be paid to his estate.²⁴⁴

Thus under the provisions of this part of the act, anyone whose total wages before retirement age amounted to \$3,000 would receive monthly benefits of \$15; one whose total wages amounted to \$25,000 would receive \$33.33 monthly; a man who received a monthly salary of \$75 for a period of ten years

244. Social Security Act, Title II, p. 3-7.

before retirement would receive monthly benefits of \$20.²⁴⁵

The unemployment compensation features of the act give the States a great deal of latitude in the type of laws enacted. The financial contribution of the Federal government is limited to the payment of the administrative expenses of the state systems. The same classes of service are exempt from the provisions of this part of the act as from the provisions relating to the old-age benefits or annuities. In other types of service a payroll tax of one per cent in 1936, two per cent in 1937, and three per cent in 1938 and thereafter, is levied on all employers who have eight or more employees for a period of twenty weeks or more during the year. However, each employer may credit up to ninety per cent of the amount paid into any approved State unemployment compensation plan against this Federal tax.²⁴⁶ On March 31, 1936, eight States and the District of Columbia had enacted approved unemployment compensation laws.²⁴⁷

A Social Security Board of three members serving for terms of six years is created to administer the provisions of this act, except that the Maternal and Child Health, the Crippled Children, and Child Welfare provisions are to be administered by the Children's Bureau, and the Public Health provisions by

245. Social Security Board, Explanation, op. cit., p. 5-6.

246. Social Security Act, Title III, p. 7-8 and Title IX, p. 22-28.

247. Soc. Sec. Board, Explanation, op. cit., p. 3.

the Public Health Service, and the Vocational Rehabilitation provisions by the Office of Education. The Board is authorized to appoint such subordinate officers as necessary in its work, but appointments with a few exceptions must be in accordance with the provisions of the civil-service laws.²⁴⁸

In addition to being a landmark in the search for social security, the Social Security Act has been called "one of the greatest tax bills" in the history of the United States. According to estimates, the various taxes imposed by it are expected to bring in about three billion dollars a year after 1948.²⁴⁹ Three distinct taxes are imposed under its provisions. The payroll tax imposed by Title IX to finance unemployment compensation has already been discussed. In addition, Title VIII imposes two taxes to finance the operation of the old-age annuity program set up under Title II. One is an income tax on employees, the other an excise tax on employers. All employers of eight or more (other than in the exempted classes of service) are to deduct the tax of their employees from the wages when paid and turn the amount over to the United States. At the same time, all such employers are required to pay a percentage tax upon their total pay rolls, except that the wages of employees earning more than \$3000 annually are exempt from both types of tax. In both cases, the tax paid begins at one per cent in 1937 and is

248. Social Security Act, Title VII, p. 18-19.

249. Time, July 1, 1935, p. 11.

increased by one-half per cent every fourth year until reaching a total of three per cent in 1949.²⁵⁰ The reserve fund created by this tax and also the reserve for the unemployment compensation plan must be invested (beyond actual needs for the payment of benefits due) by the Secretary of the Treasury in United States bonds, or in obligations guaranteed both as to principal and interest by the United States. If necessary, bonds may be issued to provide an investment for these funds.²⁵¹

To summarize, the act includes seven or eight types of social insurance programs and is based upon all three possible philosophies: (1) Federal grants-in-aid to States as exemplified by the old-age assistance, child security, health, and aid to the blind provisions; (2) A Federal-State tax-offset scheme, which is the basis of the unemployment compensation feature; and (3) A completely national plan, which is the basis of the old-age benefit provision. The first group may be divided into Federal subsidies to states which adopt gratuitous pensions, and out-and-out subsidies for State welfare programs. Further, it is patently the intention of the act that the Federal compulsory insurance system for old-age retirement shall gradually replace the old-age assistance of grants-in-aid system. The child-aid, maternity, vocational guidance, public health, and related provisions are more or

250. Social Security Act, Title VIII, p. 19-22.

251. Ibid., Title II, p. 4; Title IX, p. 24.

less substitutes for a system of health insurance, and while they represent a definite step forward they are more in the nature of relief rather than social insurance as such.²⁵² The entire program is colored by the President's belief that a social insurance program should be self-sustaining²⁵³ - thus the lack of contributions by the Federal Government to the unemployment and old-age benefit funds. The unemployment compensation features of the law invite lack of uniformity among state systems by encouraging the idea of merit-rating among employers and reserve accounts of various kinds with the accompanying opportunities for lowered rates, but with accordingly greater risks of decreased benefits to workers than in the case of pooled-fund accounts.²⁵⁴ Finally, enthusiasm for the passage of such a bill was in inverse proportion to knowledge of its implications. In the face of the general ignorance of our people and our Congress on the subject of social insurance, in the face of the lack of adequate knowledge of such fundamentals as our own unemployment statistics, without an educational program among our people, in disregard of much of European experience, we simply knocked a scheme together and ran it through the mill, hoping with all the naivete of a Townsendite or a Social Crediter, that

252. Epstein, Our Insecurity Act, p. 61-62.

253. Time, Nov. 26, 1934, p. 16.

254. Security Act, Title IX, p. 27-28.

this would usher in an economic and a social Utopia. It will be small wonder if we suffer some grievous disappointments.²⁵⁵

In the foregoing discussion, only the Social Security Act has been considered in the discussion of the security program of the New Deal. The reason for this was the fact that the other measures which could be considered as security measures were either stop-gap measures intended as temporary relief, or they have been invalidated through judicial decisions. As it stands now, the Social Security Act would seem to be the only New Deal measure yet in force which aims at a comprehensive program of social security for the future.

Criticisms of the New Deal Program

The most bitter criticisms of the Social Security Act do not come, strangely enough, from rabid conservatives, anti-New Dealers, or the "Vested Interests". Instead, they come from those who have worked long and ardently to make social insurance the policy of our government. The gist of these criticisms is expressed in the fear that, since this is an unwise law, say the critics, and since it was conceived and passed in profound ignorance of the real fundamentals of social insurance, and since it contains so much that is unorthodox, it is surely doomed to failure. They fear that the failure of this attempt to establish security will bring so much

255. Epstein, Insecurity, A Challenge to America, p. 669-677.

disappointment and disgust in its wake, that the whole social insurance movement will be considered a failure as a result, and that the hard-won gains of years will be lost. It is this fear that the social security movement will suffer a severe set-back that prompts most of the criticism that has been expressed. No attempt will be made here to give an exhaustive account of the criticisms expressed, but the paragraphs that follow will attempt to list some of the more serious - and at least the typical charges against the present program.

One of the earliest criticisms expressed was of the President's choice of personnel for the Committee on Economic Security. No reflection upon the ability of the Committee is suggested, but the President has been criticized severely because he did not select a lay committee of experts in the field to make this study and suggest a program. Instead, he selected the busiest members of his administration: Miss Frances Perkins, Secretary of Labor; Mr. Henry Morgenthau, Jr.; Secretary of the Treasury; Mr. Homer Cummings, Attorney General; Mr. Henry A. Wallace, Secretary of Agriculture; and Mr. Harry L. Hopkins, Federal Emergency Relief Administrator. Further, on the research staff employed by the Cabinet Committee most of the outstanding American Authorities on social insurance were conspicuous by their absence.²⁵⁶

256. Epstein, Insecurity, A Challenge of America, p. 672.

Another criticism rests upon the probable constitutional difficulties of the act. Of all methods of putting the program into action, the subsidy system seemed least likely to suffer from judicial action, yet this method was adopted in the welfare parts of the bill only. The tax-offset method used for unemployment insurance is believed to present very serious constitutional objections, as well as conflicting with many state constitutions. The national plan adopted for old-age benefits seemed even more doubtful from a constitutional standpoint, and many states found their constitutions to present difficulties in the way of turning the proceeds of a payroll tax over to the national government. These doubtful provisions endanger the entire structure in spite of the declaration in Title XI, Section 1103 that "if any provision of this Act . . . is held invalid, the remainder of the Act . . . shall not be affected thereby." An adverse decision on this law by a court might set the entire movement back for a long time.²⁵⁷

The unemployment compensation provisions seem entirely inadequate. Since the entire cost rests upon the employers the funds will scarcely be large enough to provide very generous benefits. Most state laws require a waiting period of four weeks, with benefits limited to a maximum of \$15 a

²⁵⁷. Epstein, Insecurity, A Challenge to America, p. 731-732.

week over a period of ten to twelve weeks. A further weakness of the unemployment provisions is the effect of the tax-offset method. It was originally felt by the Cabinet Committee that this system would eliminate the advantages employers in states without unemployment insurance might have over those in states which enacted such plans, since the Federal tax would have to be paid whether spent in the state from which it was collected or not. Thus it was felt that employers would want unemployment insurance so that their funds would be earmarked in Washington for the relief of unemployment in their own states. However, the criticism is made that the exact opposite is the result of the fact that the Federal government remits only ninety per cent of the employer's contribution to the State instead of waiving the entire amount. That is whenever a state levies a tax below or equal to the Federal tax, the employer must at all times pay 10 per cent more of the Federal tax. Should any State levy a tax in excess of three per cent, the problem of State competition will loom larger than ever for the employers of that State.²⁵⁸ A further criticism of the act is aimed at the merit-rating provisions which allow separate reserves and lower rates for employers with a good showing in the matter

258. Epstein, Social Insecurity Act, p. 63-64.

of keeping their men employed or who are able to guarantee a minimum of employment. This runs counter to the fundamental of social insurance that the costs must be widely distributed and not allowed to rest upon those least able to bear them. The failure of the government to contribute still further violates this principle since the well-to-do are relieved of participation through taxation. The system set up is simply a system of compulsory payments "by the poor for the impoverished."²⁵⁹

The old-age annuity provisions are open to question on many counts, the critics believe. First of all, the young workers are going to be unduly burdened to pay the annuities of those who will not have time to accumulate a sufficient reserve themselves before they reach the retirement age. Secondly, the matter of the investment of the fund creates a serious question. The balance in reserve will reach almost forty-seven billion dollars by 1980, it is estimated. This sum is equivalent to four times the value of all the gold reserves of the world's central banks and governments. It is about half again as large as the present national debt. Yet this huge fund may be invested only in government bonds - in other words, we must increase our debt by half in order to provide an investment for these funds. Furthermore, such a

259. Epstein, Insecurity, A Challenge to America, p. 771-783.

step will mean withdrawal of all government bonds and other obligations from the market, with the result that banks, insurance companies, and industries no longer have these investments to act as "economic safety valves". The exact results would be hard to foretell, but it is not beyond the range of possibilities that these released funds would be invested in capital goods, eventually bringing about deeper depression. A third objection to the scheme as it stands is the fact that large reserves of this type are always in danger of being used by politicians for other purposes. A pay-as-you-go system, it is felt, would avoid this danger.²⁶⁰ Another objection is that the building up of a large reserve will freeze a great deal of purchasing power at a time when it is sorely needed.²⁶¹ A further weakness of the annuities is the fact that they tax both industry and the employees in a burdensome manner, and yet in most cases the benefits will be only slightly more (sometimes even less) than now received under the non-contributory pensions being paid in most states.²⁶²

The thing that makes most of the critics so very bitter about the whole situation is that it represents so very plainly a lost opportunity. At the time of the passage of the

260. Epstein, Insecurity, A Challenge to America, p. 760-763.

261. Paul Douglas, Social Security in the United States, p. 168 - quoted in Epstein, op. cit., p. 764.

262. Epstein, op. cit., p. 766-767.

Social Security Act, President Roosevelt was at the zenith of his power and popularity. Any kind of bill that he favored could have been passed. Thus it is that the workers in this field feel that it is a tragedy that a really adequate bill - or better, a number of bills - could not have been passed at that time. Such an opportunity may not come again within a generation.

Must we feel, then, that the New Deal has made no solid contribution to the cause of social security? Even the bitterest critics would hesitate to suggest that. In the words of Mr. Epstein:

"The deficiencies of the Act cannot obscure the fact that America has definitely committed itself to the alleviation of the major ills of our system through the constructive instrumentality of social insurance. Regardless of the consequence of this particular Act, the movement for social security has not only gained immeasurably by this acknowledgment of the need for social insurance in the United States, but definite progress has been made in having the government clearly recognize its obligation."²⁶³

Regardless of the distance we have yet to go to really complete our search for social security, and regardless of whether the New Deal's contribution has been all that it might have been, it has made a contribution that is both great and definite. In 1933 and following, we found our government admitting that the government owed the citizen something just as definitely as the citizen owed the government something. We

263. Epstein, Insecurity, A Challenge to America, p. 670.

took a mighty step along the road to security when the New Deal broke a precedent and took a chance that it was possible to feed our hungry without demoralizing them - or, if not, demoralization was to be preferred to starvation. We need only think back as far as 1932 to realize how far we have come when a President announces as his first objective the security of the citizens of the country. Ten years ago social insurance was not quite a respectable subject to even think about. Regardless of whether this initial act in the United States is good or bad, of whether it is of a temporary nature or not, regardless, even, of its constitutionality - it is a beginning in the right direction. The ice has been broken at last, and this may be the entering wedge for something comprehensive and permanent. Not that we need hope for anything perfect nor for security for everyone for a long time to come. The millenium is not at hand. We may undergo a great deal of suffering and distress yet before our search ends, but two things the New Deal has done. It has recognized the responsibility of this government for the welfare of its economically helpless citizens, and it has given the prestige of government authority to an attempt to fix a minimum of comfort and decency in living conditions below which no citizen must be allowed to go.

CHAPTER VIII

CONCLUSION

The Panaceas

I have conceded that each of the nostrums considered in this study has made some contribution to the search for social security. In every case, the really important contribution has been along the line of pointing out the weaknesses of the present system, or focusing public opinion upon some of the most crying needs of the masses of our people. Occasionally the contribution has taken the additional form of a warning that fundamental reform along the line of providing mass security cannot be postponed indefinitely. Can any of these schemes be expected to become the basis of a real social security program, however? Let us now summarize each plan considered againⁱⁿ the light of that question.

In the field of the lesser nostrums, we must reject Technocracy as the possible background of a permanent social security program. Rejection of this scheme comes largely upon the basis that the scheme itself is incomplete. The Technocrats simply pointed out a number of things wrong with our system, debated them at great length, suggested certain lines of improvement, and let it go at that. They suggested no way of getting from "here to there" but left us suspended in mid-air, so to speak, by their assertion that the present state of affairs was all wrong, their proposed system was the answer to all our economic ills,

but they couldn't be bothered about the way in which the change or any part of it was to be accomplished.

Likewise we find it necessary to reject the Share-Our-Wealth movement of the late Huey P. Long without any great investigation of the merit of its proposals. This arbitrary handling of the Long movement is justified by the personality and record of the founder. Since his sincerity is open to grave doubts, and since his record in Louisiana would serve to discourage the belief that he was in any way concerned with furnishing real social security, we would find it easy to reject this scheme as a security program even had Huey lived and even had the plan contained the elements of economic soundness.

The basis of the rejection of Upton Sinclair's EPIC movement as the ultimate cure for all our social and economic ills is slightly different. This plan must be rejected because it demands a revolutionary change in a system dominated by semi-conservative thought. EPIC demanded a new and untried experiment and held up as its ultimate goal the complete elimination of private enterprise in our industrial life--a system of state socialism in other words. Personally, I feel that there is much to be said for the type of thing that Sinclair was trying to do. After all, anything less than the ownership and operation of our economic system by and for the great mass of the people is simply a method of

salving over the weakness of the present system. Complete social security could probably be achieved better through the medium of public ownership and its accompanying operation for use and not for profit than in any other way. Further, there is a chance that EPIC might have operated successfully if given the opportunity. At least other depression born cooperatives throughout western United States have shown that some degree of success in such an enterprise is possible. While the system might not have accomplished all that Sinclair hoped for it, it might at least have alleviated some phases of the relief problem in California. Nevertheless, in spite of all that may be said in favor of the plan, it was doomed by the fact that it frightened a great many people. To many it was a distinct threat, and at best it was something new and untried, which was probably even more damning in a conservative society. At any rate, we must reject as the basis of our social security program a scheme which frightens a great part of our society at the outset by proclaiming the doctrine of revolution--however bloodless--and profound social change, and which immediately calls for a struggle between the "haves" and the "have-nots".

While Social Credit does not call for any drastic change in our organization, we must reject it also as the foundation of our social security program. Plausible as it may sound in some of its phases, it still gives us no method of reaching

the millenium which it promises. Without a practicable way of evaluating the worth of the "cultural heritage" to each individual, without a reliable means of determining the individual's share of the "unearned increment of association", and without some means of determining in an accurate way the proper national dividend, Social Credit must remain simply a pious hope. Further, before we can accept Social Credit as a possible solution, it should be shown that the use of the national dividend to give and the sales tax to take away is not, in fact, a method of taking money out of one pocket and "with a great deal of difficulty, vexation, expense, and a certain amount of parade" putting it into another. So far the leading advocates of Social Credit have done little to answer these objections to their plan as the basis for real social security. They are equally nebulous as to just how the system is to be put into operation in the first place.

We shall probably find it far easier to reject the Townsend plan in all its phases in these pages than the country as a whole will find it to put it down politically and have it stay down. This has the largest following of all the nostrums, its followers are by far more hysterical than the followers of any other plan, and its philosophy is the most dangerous, both to the cause of real social security and to the principles of sound government. We are able to point out a number of reasons why the Townsend Plan could not be the source of social security, and any

one of these reasons is sufficient cause in itself for the rejection of the movement as the answer to our search for social security. To summarize the objections to the Plan:

1. The Plan is by no means free of the suspicion of being a promotion scheme for the enrichment of the founders at the expense of deluded oldsters to whom it holds out the promise of permanent security.

2. The cost of the Plan removes it from the field of economic possibility. It proposes to place from one-third to one-half the national income in the hands of a twelfth of the people. It further seeks to raise by taxation each year a sum equal to two-thirds the national debt which we expect to repay only with great difficulty over a period of perhaps fifty years.

3. The transactions tax which is to finance the Plan will violate the principle of taxing according to ability to pay. The tax will be paid upon necessities as well as upon luxuries, and will thus bear more heavily upon the poor than upon any one else. Further this tax will be pyramided at the outset since the tax will be collected upon each transaction which takes place between the original producer of the raw material and even the ultimate consumer of the finished product. Even so, the proposed tax of two per cent would probably be insufficient to raise the necessary revenue making it necessary to impose a heavier and even more burdensome tax. At the very best, the tax would be at least doubled since everyone would pay it once when he collected his income and again when he spent it.

4. Due to the advantage that the tax would give the chain stores with their fewer transactions between producer and consumer, the Plan would mean the very opposite of social security for the independent business man. Regardless of the stimulation the plan might furnish to business, the small independent could not overcome the advantage that the chain store would derive from the operation of the transaction tax.

5. The idea that increased circulation of money or the tax levied under the Plan would, by themselves, bring prosperity is entirely fallacious. These two things neither increase nor create wealth.

6. Operation of the Plan would result in the heavy taxation of many who are in dire need simply to give \$200 a month to a great number of old people who do not need it, with an accompanying neglect of cripples, widows, and orphans whose needs might be much greater.

7. The increase in prices which would result partly from the inflationary aspects of the plan and partly from the addition of the tax to all prices would result eventually in making the purchasing power of the pensions only a fraction of \$200, and at the same time the purchasing power of wages and all other income would be reduced proportionately.

8. The cost of administration of such a scheme would be almost as expensive as the cost of the pensions themselves. This cost added to the enormous costs of the pensions serve to reduce the whole proposal to the nature of an absurdity.

All in all it is unfortunate that so many of these nostrums have received such a wide reception. Even though they have made some contribution to the search for social security, they invariably arouse hopes impossible of fulfillment. All these schemes carry in their wake a number of politicians who are willing to take the adherents of the schemes "for a ride" and who encourage their belief in the possibilities of the schemes in order to build up a political following. In other words, with most of the panaceas there is the thoroughly nasty spectacle of politicians trading upon human misery and suffering accompanied by the equally unwholesome desire of a great share of the followers to get something for nothing, i. e., the \$200 a month promised by Townsend or the basic dividend of \$25 promised by Aberhart.

The Program of the New Deal

The Social Security Act passed in August, 1935, constitutes a great forward step in the search for social security as we have already noted. Perhaps the most significant thing about this act is the fact that it has committed the government of this country to a program of social insurance. The entire record of the New Deal has served to give recognition of the government's responsibility for the welfare of the economically helpless, and the official recognition of the principle of social insurance is a fitting climax to the New Deal's contribution to the search for social security. The precedents set by the Roosevelt Administration have made a return to the "frontier-idealism" of the Hoover--Coolidge era impossible. No matter whether the present administration is returned to office, or whether Mr. Landon becomes a tenant in the White House, our government is unequivocally committed to the proposition that it is the function of government to see that its citizens do not go below a definite minimum standard of comfort and decency. The New Deal then has taken an important first step in the direction of a real social security program. I place these observations concerning the New Deal first in my conclusions concerning its program, since I believe that they represent the most important facts concerning the present program. The remainder of my observations concerning the Social Security

Act will be devoted to a criticism of its weaknesses, but I am anxious to stress, first, my belief that regardless of the things that may be wrong with the Act, the New Deal has made a significant advance in what I believe is the right direction.

Many of the defects of the Social Security Act may be traced, I believe, to the way in which it was conceived and in which it became law. The outstanding early mistake was in the selection of a committee to prepare a report on the possibilities of security through social insurance. A lay committee of students and experts in this field was greatly to be desired, but instead the President appointed the five busiest members of his administration to this committee with the result that thorough consideration of the subject was impossible. Further the time devoted to the subject by this committee was far too short. The President's declaration for a system financed by contributions and not by taxes again served to emasculate what might have been an adequate system. Finally, the passage of the bill through Congress was hasty, and the ignorance of Representatives and Senators upon the subject was profound. Correction of these early flaws would probably have meant a much stronger measure than the Act finally enacted.

The old-age provisions of the Act are open to serious criticism. The existence of an old-age pension and an annuity system side by side may lead to considerable difficulty. It has already been pointed out that in many cases annuities

will be less adequate or only slightly greater than old-age pensions whose recipients have not contributed to the funds from which their benefits are received. Little attention was given to the possible cost of the pension system at the time of the passage of the act, but even though this feature should eventually be replaced by the annuity system, there will be several years that the cost will rise as high as a billion dollars. Complete replacement will be impossible due to the fact that pensions must still be granted on the basis of need to those classes of employees not covered by the annuity system.

The annuity features may be criticized along other lines than the comparative inadequacy of benefits, however. The most serious criticism I have to make of this feature of the act is the fact that it is based upon the building up of a huge reserve. As originally recommended by the Committee on Economic Security the reserve would never have risen above fifteen billion dollars, and the pay-as-you-go idea would have dominated the system. That is, all workers under 65 would have supported the system for those over the retirement age under the assurance that they in turn would be supported by the contributions of the younger workers when they reached the pension age. As changed by Congress (at the recommendation of the President) the system will accumulate reserves of about 49 billion by 1980, however. These reserves may be invested only in

government bonds or obligations guaranteed by the government.

Some weaknesses inherent in the reserve system are:

1. The necessity of investment in government bonds will require the permanent existence of a national debt half again as large as our present huge debt. The interest on this debt alone will require the expenditure of over a billion dollars of the yearly revenues of the government.

2. As a result of the necessity of investment bonds for these reserve funds, all government obligations will be removed from the market. The lack of a "safety valve" for the investment of the surplus funds of banks, industry, life insurance companies and the like may have serious consequences.

3. Under the reserve system, there will always be considerable excess of income over outgo. This is sure to lead to agitation for a dangerous liberalization of the benefits or to a program of unsound government spending. A huge reserve fund is always open to the danger of "raids" for other purposes by politicians more interested in pleasing the voters of the present than sacrificing the needs of the present to the interests of the voters of the future.

4. The building up of large reserves results in the freezing of needed purchasing power--something contrary to the whole thought and practice of the New Deal.

As contrasted to this, a pay-as-you-go system has the definite advantage that it tends to keep the benefits within manageable limits, since they become a relatively large charge upon current taxes. Such a system keeps the taxpayers acutely aware of the cost of the system with the gratifying result that there is less likelihood that the plan will break down due to having promised more than can be delivered. Thus from the viewpoint of the government, the taxpayers, and the recipients of benefits themselves, it is necessary to

conclude that the pay-as-you-go system, or a system accumulating only small reserves is much to be preferred to a system which seeks to accumulate a huge reserve the interest on which will take care of all benefit payments.

Still another criticism of the annuity features of the Social Security Act is based upon the probable constitutional difficulties of this part of the act. While in theory the national system employed is greatly to be desired, it is open to grave constitutional doubts. On the other hand, the subsidy system used in relation to the pension features is clearly constitutional. Further, many states are faced with the necessity of making constitutional changes before the proceeds of the supporting taxes can be turned over to the Federal Treasury.

The unemployment features of the act are perhaps the weakest features of the entire act. To summarize some of the most important weaknesses:

1. There is grave doubt as to the constitutionality of the tax-offset system adopted.
2. The fact that only 90 per cent and not all of the tax of any employer is waived to the state system has the effect of retarding the adoption of state plans rather than encouraging them as was the purpose of the tax-offset idea.
3. The act encourages the lack of uniformity among state systems by allowing for both pooled and employer-reserve and industry-reserve funds. The application of merit-rating provisions is a further encouragement to lack of uniformity as well as a violation of the social insurance principle that the costs must not rest upon those least able to bear them.
4. Failure of the government to contribute is a further violation of this principle. Financing the

cost of unemployment insurance solely by a tax upon employers will mean that ultimately the consumers will bear the cost and that therefore the laborers in their capacities as consumers will be forced to bear the entire burden of the system while the well-to-do of the country make no contribution or only a negligible contribution.

5. Benefits will necessarily be small, waiting periods long, and the duration of benefits short due to the effort to set up systems that are actuarially sound without the contribution of the government.

Relatively few criticisms of the welfare provisions of the act are to be found. These provisions represent a considerable extension of Federal activity along the lines of child welfare, public health, aid for the blind and so on. They are financed by Federal grants-in-aid to states and for that reason are more satisfactory than the unemployment features as well as being in less danger of being invalidated by judicial decision. The most important criticism of these features as they now exist is, in my opinion, the fact that the grants are rather small even though they do represent an extension of Federal activity. However, this weakness can easily be remedied as time goes on. Many critics suggest that the failure to establish a definite system of health insurance is a valid criticism of these features of the act, but for reasons to be stated later I do not feel that this is an important criticism, although I do

believe in health insurance.

I wish to reiterate a criticism of the entire act made in the last chapter. Taken as a whole, the act represents a lost opportunity. At the time of its passage, any kind of act favored by Mr. Roosevelt could have been passed. Thus it is all the more tragic that fuller study could not have been given to such a measure and a better bill enacted.

A Social Security Program for the Future

Perhaps I should make it clear at the outset of this section that I am now discussing the type of program that I would favor and not necessarily the program I think apt to be achieved within the near future. The existence of the Social Security Act, bad though it may be, makes any immediate change in our set-up highly problematical until the weaknesses of the act are more thoroughly exposed through experience. In the meantime there is always the danger that the experience will be so unpleasant that the movement will be set back for years, or that a like injury will be inflicted as a result of an adverse court decision upon some of the features of the act of doubtful constitutionality. This then is simply a general outline of the hypothetical program which I would favor.

I have stated elsewhere that I feel that the only possible solution under our present social and economic organization is a comprehensive system of social insurance.

I feel that the term, social insurance, includes all the things mentioned in Mr. Epstein's definition which I quoted in chapter six (unemployment, sickness, invalidity, old-age, death of the bread-winner, illness and burial of a member of the family, the birth of a child, or the burden of supporting a large family) because these are the things against which the ordinary individual cannot afford to insure himself in a commercial company, and unless these risks be insured in some way there is no social security. However, I do not feel that any good purpose will be served by trying to jump into a complete and all embracing system of social insurance all in one jump. I do not feel that American public opinion is quite ready for so large a move, and a period of education will be necessary before we are ready for that step. I feel that my opinion in this matter is supported by European experience. In no country in Europe was a complete program of social insurance achieved over night. European systems grew up piece-meal over a period of fifty years, new features being added as public opinion was prepared for them and the need was felt. First of all then I feel that we should undertake a period of education in the United States and undertake only such phases of social insurance as we are ready for now.

I feel that at the present time it is best to continue the general grants-in-aid to states for welfare work instead

of trying to develop a comprehensive system of health insurance and the like. There is so much opposition to health insurance on the part of organized medicine, insurance companies and the like that it would jeopardize the entire social insurance program to insist upon a health program now. In the field of industrial accidents and workmen's compensation, the opposition is less important, but some progress has been made by state plans, and this field can wait also until the general public is educated to a demand for an all-embracing insurance program. At the present time I believe that social insurance should be limited to two fields in the United States: old-age and unemployment insurance.

I feel that we are ready for social insurance programs in these two fields now because of the thought that has been given to both because of the depression and the events of the past few years. If successful programs in these fields can be established, then it will be only a matter of time until the program can be expanded into the other fields considered desirable. We have at least become old-age and unemployment insurance minded since 1929, and adequate programs would be comparatively easy to establish.

In both types of insurance I would favor contributions by the employer, the worker, and the state. The contributions on the part of the state are justified by the principle that the costs must be spread, and the contributions by the worker by the psychological advantage of having him participate as a matter of right in the benefits of the system. I feel

that the system set up should be Federal-State in which the Federal contribution takes the form of a subsidy. A purely national set-up would be desirable from a theoretical standpoint, but would probably be impossible without a constitutional amendment. The necessary uniformity can be secured, however, by demanding that states meet definite requirements to secure their subsidies from the Federal government. Insofar as possible the taxes levied to support these systems should be income or inheritance taxes in order to place as large a share as possible of the burden upon those most able to pay. Coverage should be as wide as possible, and some provision should be made for wage-earners who are constantly moving from state to state. Administration should be as simplified and inexpensive as possible.

For reasons indicated in the last section, I feel that the old-age insurance system should be on the pay-as-you-go basis and that only small reserves should be accumulated. Age 65 would be a satisfactory retirement age. Old-age insurance does not imply the ability to drop institutional relief of all kinds, since this type of relief will still be necessary for many of the incapacitated and enfeebled aged. Probably a supplementary system of old-age pensions will also be necessary in case there are any classes not covered by the insurance system. Pensions based upon need should not be equal to annuities based upon contributions, however.

Unemployment insurance should provide for the beginning of benefits after a short waiting period, and benefits should extend as long as there is need--as under the British system--whether the system is actuarially sound or not. When such extension is necessary, social insurance becomes insurance for society (against riot, disorder, and so on) as well as insurance against the risks which beset the individual. Benefits should bear some relation to salary (half to three-fourths, perhaps) and should be granted upon evidence of unemployment and not of need. The system should be administered through employment exchanges at which the unemployed would register to receive benefits or to be placed in jobs if possible. Unless there is provision for extension of benefits during emergency periods, there must be some permanent relief set-up to care for workers after their benefits have been exhausted. At first it would probably be wise to attempt coverage only of those workers whose annual salaries are less than \$3000 or even those less than \$2000. The system should of course be compulsory to secure as wide a distribution of the risk as possible. The mistakes of the present act which allow merit-rating and various types of reserve fund should not be repeated. Further, the present provisions which require two cumbersome (Federal and State) sets of records, returns, and the like on the part of employers should be eliminated in favor of as simple a method of tax collection as possible. A set-up by means of which the employer paid his total contribution and that of his employees to one agency by means of

stamp purchase and employee records were kept by means of stamp books would eliminate many of the unwieldy features of the present act.

I do not feel, of course, that I have outlined here any comprehensive or adequate program of social security. I have simply tried to point out what might successfully be done as a beginning. As I have indicated, a process of education will be necessary before there can be any real expansion of the principles of social insurance in the United States. It is vital, therefore, that we do not "bite off more than we can chew" for the initial experiment. A successful operation of the two types of insurance mentioned will be the best argument for the extension of the system. By "successful operation" I mean--as I have indicated in an earlier chapter--the relief of human misery in a manner which leaves the recipient of relief his self-respect. If this is accomplished, the system is successful and solvent regardless of whether the income from contributions equals outgo in benefits or not. The achievement of social security will not be the work of a day or a month or even a year. Even when (or if) the time comes that we have a really comprehensive program of social insurance in the United States we shall probably find that it leaves a great deal to be desired. Nevertheless, such a system, I believe, offers the best possible means of providing the minimum requirements of life for the greatest number of people under our present organization. I sincerely

believe--and my observation of the followings acquired by the "panaceists" is responsible for the belief--that unless this minimum security is provided by this means, we shall see a decided change in our organization, and a revolution by ballots can be just as disastrous as a revolution by bullets. Social insurance, it seems to me, is a possible bulwark between the present system and a sudden and perhaps undesirable change some time in the next depression. For this reason and for the reason that we need what it has to offer, I do not hesitate to suggest social insurance as the logical next step in the search for social security.

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Good source of information and editorial discussion of several phases of problem.

New Democracy, New York, May 15, 1934, Jan. 1-15, 1936, Feb. 1, 1936.

This magazine is the American organ of Social Credit, and the issues at hand served as a source of current information concerning the subject.

Old Age Revolving Pensions, Ltd. The Townsend Plan, National Recovery Program, Ready Reference, 2nd ed., Chicago, 1936.

Valuable source of first hand information concerning the Townsend Movement. Contains complete Townsend theories.

Parrish, Wayne W. "What is Technocracy?" in New Outlook, 161 (Jan. 1933), p. 13-16.

"Technocracy's Challenge," in New Outlook, 161 (Nov. 1932), p. 13-18.

These two articles present the case for Technocracy in able fashion. Satisfactory source of information concerning this theory.

Province of Alberta, Synopsis of Statutes of General Application Enacted at the First Session of the Eighth Legislature, Feb. 6th to April 7th, 1936. King's Printer, Edmonton, 1936.

Valuable solely to check upon Alberta's Social Credit government's legislative achievements.

Raymond, Allen "Technocracy Offers a Cure" in Current History, 37 (Feb. 1933), p. 525-31.

A fair estimate of Technocracy. He is not sold but is sympathetic. Presents strong and weak points of theory.

Report to accompany H. R. 7260, report of the Ways and Means Committee of the House upon the Social Security Bill; 74th Congress, 1st Session, Report No. 615.

Report to accompany H. R. 7260, Committee of Finance of Senate on Social Security Bill, 74th Congress, 1st Session, Report No. 628, Calendar No. 661.

These two reports serve to amplify certain phases of the Security Act as adopted. Of uncertain value in this study.

Report to the President of the Committee on Economic Security, U. S. Government Printing Office, Washington, 1935.

Important source of material concerning the bill enacted into law and also concerning the need for a social insurance program.

Richberg, Donald R. "The Townsend Delusion," from Review of Reviews, read into Congressional Record by Warren H. Austin, March 3, 1936.

Serviceable analysis of the Townsend Plan. Points out fallacies. Good source of pertinent criticism.

Rubinow, I. M. The Quest for Security, New York, 1934.

Another excellent presentation of the case for social insurance by one of the leading authorities. A very reliable source of material for this phase of the subject as well as for general material.

Social Insurance, With Special Reference to American Conditions; New York, 1916.

This was the standard work on this subject for almost twenty years. Still relevant although superseded by his later book (above) and Epstein's study. Of only slight value in this study.

Standards of Health Insurance; New York, 1916.

Still an important work in its field. Of small value in this study.

Sinclair, Upton, EPIC Answers, How To End Poverty in California; 3rd ed., Los Angeles, 1934.

I, Governor of California and How I Ended Poverty: A True Story of the Future; 10th ed., Los Angeles, 1934.

Immediate EPIC, the Final Statement of the Plan; Los Angeles, 1934.

Letters to Judd, An American Workman; 3rd ed., Pasadena, 1933.

The Lie Factory Starts, Los Angeles, 1934.

The Way Out, What Lies Ahead for America; Pasadena, 1933.

We, People of America and How We Ended Poverty: A True Story of the Future; Pasadena, 1933.

These works present a clean-cut view of the Sinclair theories, and the Sinclair Plan. Excellent as a first hand source of material concerning this movement.

Smith, Gerald L. K. "How Come Huey Long?" In New Republic, 82, (Feb. 13, 1935) p. 15.

Presentation of the case for Huey. Good material as stating the views of the "other side".

Social Credit League of Alberta, Study Group Features I-V.

Platform of Social Credit Supporters of Alberta;

The British North America Act and Social Credit, Calgary;

What Would Social Credit Do For Us?

These pamphlets were all of considerable value as a presentation of the Social Credit theory in Alberta during the campaign of 1935.

Social Credit Pamphleteer, compiled and published by Stanley Nott, London, 1935.

A collection of twelve outstanding pamphlets by advocates of Social Credit. Excellent source of information concerning the theories of the group.

Social Security, publication of American Association for Social Security, April and May, 1936. New York. Current news in the field of social insurance. Of small value.

Social Security Act, Public - No. 871 - 74th Congress (H. R. 7260).

Valuable as a primary source.

Social Security Board, Actuarial Factors in State Unemployment Compensation Plans; Washington, Jan. 1936.

Compiled to aid states in setting their standards. Of little value in this study.

Social Security Board, A Brief Explanation of the Social Security Act; Informational Service, Circular No. 1, Washington, April, 1936.

Very helpful in clearing up the many obscure points in the bill.

Draft Bills for State Unemployment Compensation of Pooled Fund and Employer Reserve Account Types; Washington, Jan. 1936.

Model bills for states. Of practically no help in this study.

Unemployment Compensation, Informational Service Circular No. 2, Washington, April, 1936.

Answers to pertinent questions concerning the unemployment features of the Security Act. Valuable in clearing up various phases of that section not clearly understood.

Swing, C. W. "The Menace of Huey Long," in Nation, 140 (Jan. 23, 1935) p. 98-100.

Good as critical evaluation of Long and his ambitions.

Time, vol. XXIV-XXVIII, Chicago, 1934 - 1936.

Not only "curt, concise, complete", but also accurate and fair. An excellent source of reliable information concerning every phase of the problem studied.

Townsend National Weekly, Los Angeles, Indianapolis; April, May, June, 1936.

First hand source of information concerning plans of the movement, attitude of the membership and the like. Not very reliable as to figures.

Townsend Plan, a circular.

Statement of the objectives of the movement in concentrated form. Useable.

The Townsend Plan, pamphlet given to all members.

Gives a fuller statement of the plan and the program to be undertaken. Good source of information.

Weishear, Wayne "Technocracy, An Appraisal" in North American Review, 235 (Feb. 1933), p. 121-123.

Sympathetic to philosophy of the movement but impatient of its political impotence. Good material in that it points out one of salient weaknesses.

Miscellaneous documents of only slight value in this study, as follows:

1. A chart summarizing the provisions of state unemployment compensation laws.
2. Four charts explaining provisions of the Social Security Act.
3. Six circulars explaining various phases of the Act.
4. Press releases of the Social Security Board from March 30, 1936 through May 4, 1936. These documents were the most valuable of this entire group.
5. Three pamphlets issued by the Pacific Mutual Life Insurance Company.