ADDRESS OF GERARD SWOPE
PRESIDENT GENERAL ELECTRIC COMPANY
BEFORE
WAR INDUSTRIES BOARD
NEW YORK NOVEMBER 11, 1935

In accordance with the request of your esteemed Chairman, I am glad
to say a few words about the Federal Social Security Act.

As you well know, I have great sympathy with legislation of this
character, and nothing can testify to that better than the fact that the
General Electric Company has had for many years plans covering life
insurance, old-age pensions and unemployment insurance. Its total
expenditures under these plans have amounted to upwards of $31,000,000
and it has today in the hands of Trustees upwards of $36,000,000 to
provide for these purposes in the future.

I am going to assume that you know the main elements of the Social
Security Act, as affecting old-age pensions and unemployment insurance,
and I am going to address myself only to one or two points that I think
are unfortunate, not only in the Federal Act but in some of the State
legislation, especially New York. These were pointed out before the
Federal and State legislation was passed and the Federal Act amended in
part along these lines.

The Federal Social Security Act provides for unemployment insurance
for all industrial and commercial organizations having eight or more
people, and the Federal Government levies a tax of 1% on the total
payrolls beginning in 1936 and increasing to 3% in 1938 and thereafter.
Remember that this tax is on the total payroll, not only on that portion
of the payroll covering people who would be beneficiaries under the Act,
but the employer must pay a tax on the salaries of those people who can
never be beneficiaries under the Act. There is a notable difference
between this and the Federal old-age pension section, where the employer
must eventually pay a tax of 3%, but only on the first $3,000 of wages or salaries and everyone is eligible for old-age pension on the basis of the first $3,000 of salary or wages.

Another notable distinction between the two provisions is that the old-age pension portion is done by the Federal Government, while the unemployment insurance, though the tax is collected by the Federal Government, 90% thereof is remitted to the States on the passage by the State of an unemployment insurance law.

Also under the unemployment insurance section of the Federal Act, the tax is levied entirely upon the employer, and it is notable that the United States is the only country in the world, with the single significant exception of Russia, where the employees do not pay a portion of the cost of unemployment insurance, and Canada was the latest to join this year the group of countries where the employees pay a portion of the cost of their insurance. Not only does it seem to me that it is right and proper that they should, but to my mind it is even more important that they should contribute to the cost because then they will be more interested not only in the unemployment insurance itself but the administration of it, making such administration much more efficient and effective.

It is true that the Federal Act permits States to have employee contributions, and a number of the progressive States, such as Massachusetts, New Hampshire, California and Washington, have already passed unemployment insurance laws incorporating employee contributions, but the State of New York does not.

Unemployment insurance really to produce the best results should serve as an incentive to employers to provide steady work and to prevent unemployment. The Federal Act allows the States to give encouragement
to the employer for employment assurance, or a minimum annual wage or salary, or for decreasing unemployment. While the four progressive States above mentioned make provision for not only employee contributions but also encouragement to employers to assure employment and to minimize unemployment, the great State of New York does not, and it is to be hoped that in the coming session of the legislature the Act will be amended to provide for these desirable and constructive measures.

The result of the Act in New York can best be illustrated by some figures as applying to a small employer. If an employer has four employees, each receiving $2,000 per year, a total payroll of $12,000, his tax in 1938 and thereafter will be 3%, or $360. If the employer guarantees employment for the year or has been able by efficient management or by the nature of his business to have no unemployment, under the New York Law his tax remains the same, that is 3% on his total payroll, or $360. per year. If all his employees are dismissed, or there is variation in their employment, they get absolutely no benefits and as a matter of fact, and it seems most ironical, that the only gain in this respect is if the employer dismisses some of his employees so his payroll is less and therefore his tax is less. It would seem that the tax here is producing just the reverse of what is desired, and in addition to increasing the cost of doing business and therefore the price of the service to the buying public, it is producing more unemployment and decreasing the revenue for unemployment benefits.

On the other hand, take an employer with eight employees receiving $30 per week, or approximately $1,500 per year, his total payroll is $12,000 and tax is $360. If this employer is inefficient, or by the nature of his work employment cannot be stabilized and his employees are laid off, under the law they may draw benefits of $15 per week for 16 weeks in any
year, or $240. per year, or for eight employees a maximum of $1920, or 5-1/3 times the amount the employer has paid into the unemployment insurance pool, and if the fund remains solvent the deficit of this employer must be paid by the other employers in the State who are either more efficient in the management of their businesses or have a less variable business as far as employment is concerned.

It will be seen that the employer who is in position to regularize employment is not encouraged to do so, in fact he is encouraged to keep his payroll down, either by employing fewer skilled people and paying lower rates of wages, or by laying off people, and the inefficient employer or the employer in the more variable industry is not encouraged to reduce these variations in employment.

Under the old-age pension section of the Federal Act, as stated before, the employer and employee each pays into the fund and in 1949 and thereafter it will be 3% on the first $3,000 of salaries or wages received by the employees, and the same for the employer. If any of the employees receive more than $3,000, neither the employee's nor the employer's tax is increased as $3,000 is the maximum on which the tax is levied and pensions figured. This means in the examples I have cited, the first employer or four employees would pay $360. per year and the employees would pay $360 per year, and each of the employees, when he reaches 65 would be eligible for a maximum pension of $1,000 per year. The employees of the second employer of eight people at $1500 per year would pay a total of $360 per year and the employer $360 tax, and when these employees retire at the age of 65 they can draw a pension of approximately $500 per year.