

ECONOMIC SECURITY ACT

MONDAY, FEBRUARY 18, 1935

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

The Committee met, pursuant to adjournment, at 10 a. m., in the Finance Committee room, Senate Office Building, Senator Pat Harrison, chairman, presiding.

The CHAIRMAN. Dr. Cloyd H. Marvin, representing the American Council on Education.

STATEMENT OF DR. CLOYD H. MARVIN, WASHINGTON, D. C., REPRESENTING THE AMERICAN COUNCIL ON EDUCATION

Dr. MARVIN. Mr. Chairman and members of the committee: The American Council on Education has a membership of 43 constituent members, made up of such institutions as the National Association of State Universities, National Catholic Educational Association, North Central Association of Colleges and Secondary Schools, and many others which I am going to file with you.' In addition to that it has a membership of 225 colleges and universities over the country, which I shall just file so as not to take the time, if they may be included as a part of the record.

The CHAIRMAN. Yes.

(The members of the American Council on Education are as follows:)

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- American Association of University professors:
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 H. C. Lancaster, Johns Hopkins University, Baltimore, Md.
 H. W. Tyler, 744 Jackson Place, Washington, D. C.
- American Association of University Women:
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 Esther L. Richards, Johns Hopkins Hospital, Baltimore, Md.
 Belle **Rankin**, 1634 Eye Street NW., Washington, D. C.
- American Library Association:
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 H. M. **Wriston**, Lawrence College, Appleton, Wis.
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 (Delegates not yet appointed.)
- Association of Land-Grant Colleges:
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 Merritte W. Ireland, 1870 Wyoming Avenue, Washington, D. C.
 W. D. Cutter, 535 North Dearborn Street, Chicago, Ill.
- Council of Section of Legal Education and Admissions to the Bar of the American Bar Association.
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 Alexander B. Andrews, 239 **Fayetteville** Street, Raleigh, N. C.
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- Dental Education Council of America:
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 William H. G. Logan, 55 East Washington Street, Chicago, Ill.
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 S. D. Shankland, 1201 Sixteenth Street NW., Washington, D. C.
- Institute of International Education:
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 H. M. **Wriston**, Lawrence College, Appleton, Wis.

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 Frederick Redefer, 716 Jackson Place, Washington, D. C.
 Willard W. Beatty, Bronxville Public Schools, Bronxville, N. Y.

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 C. H. Warren, Yale University, New Haven, Conn.
 F. L. Bishop, University of Pittsburgh, Pittsburgh, Pa.

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 Guy E. Snavelly, Birmingham-Southern College, Birmingham, Ala.

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C. R. B. Educational Foundation.

Education Council Y. M. C. A.

Federated Council on Art Education.

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Illinois-Continued.

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 Rockford College
 Rosary College
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 Hood College
 Johns Hopkins University
 Loyola College
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 Boston University
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 Emmanuel College
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 Radcliffe College
 Regis College
 Simmons College
 Smith College
 Wellesley College
 Wheaton College

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 Alma College
 Marquette College
 Michigan, University of
 Western State Teachers College

Minnesota:

Carleton College
 College of St. Catherine
 College of St. Scholastica
 College of St. Teresa
 Macalester College
 Minnesota, University of
 St. Olaf College

Mississippi:

Millsaps College
 Mississippi State College ,

Missouri:

Central College
 Lindenwood College
 Missouri, University of
 Northwest Missouri State Teachers College
 The Principia
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New Hampshire:

Dartmouth College
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College of St. Elizabeth
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New Mexico:

State University of New Mexico

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 Alfred University
 Brooklyn College
 Buffalo, University of
 Colgate University
 College of the City of New York
 College of Mount St. Vincent, on Hudson
 College of New Rochelle
 College of the Sacred Heart
 Columbia University
 Cornell University
 D'Youville College
 Fordham University
 Good Counsel College
 Hamilton College
 Hunter College
 Keuka College
 Manhattan College
 Marymount College
 Nazareth College
 New York State College for Teachers
 New York University
 Polytechnic Institute of Brooklyn
 Rensselaer Polytechnic Institute
 Rochester, University of
 Russell Sage College
 Sarah Lawrence College
 Skidmore College
 St. Joseph's College for Women

New York-Continued.

Syracuse, University of
 Union College
 Vassar College
 Wells College

North Carolina:

Duke University
 Johnson C. Smith University
 North Carolina, University of

Ohio:

Akron, University of
 Case School of Applied Science
 Cincinnati, University of
 College of Mount St. Joseph on the
 Ohio
 Heidelberg College
 Marietta College
 Miami University
 Muskingum College
 Oberlin College
 Western Reserve University

Oklahoma:

Oklahoma A. & M. College

Oregon:

Oregon State Agricultural College

Pennsylvania:

Allegheny College
 Bryn Mawr College
 Bucknell University
 Drexel Institute
 Grove City College
 Immaculata College
 La Salle College
 Lehigh University
 Marywood College
 Mount St. Joseph College
 Pennsylvania College for Women
 Pennsylvania State College
 Pittsburgh, University of
 Rosemont College
 Seton Hill College
 St. Thomas College
 Swarthmore College
 Temple University
 Villanova College

Pennsylvania-Continued.

Washington and Jefferson College
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Rhode Island:

Brown University

South Carolina:

South Carolina, University of
 Winthrop College

South Dakota:

South Dakota State School of
 Mines

Tennessee:

Chattanooga, University of
 Fish University
 Southwestern
 Vanderbilt University

Texas:

Baylor University
 Our Lady of the Lake College
 Rice Institute
 Texas, University of
 Incarnate Word College

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 Utah Agricultural College

Vermont:

Middlebury College
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Virginia:

College of William and Mary
 East Radford State Teachers
 College
 Mary Baldwin College
 Sweet Briar College
 Virginia Polytechnic Institute
 Virginia, University of
 Washington and Lee University

West Virginia:

West Virginia State College

Wisconsin:

Lawrence College
 Marquette University
 Milwaukee-Downer College

Wyoming:

Wyoming, University of

Dr. MARVIN. When this bill for economic security came up, a special committee was appointed by the association, which is composed of Mr. Joseph H. Saunders, the chairman of the board of trustees of the National Education Association; Mr. Robert L. Kelly, the executive secretary of the Association of American Colleges; Rev. George Johnson, secretary of the National Catholic Welfare Conference; and Cloyd H. Marvin, president of the George Washington University here, as chairman.

We feel that there is a great deal to be said for the suggested bill, but there are two or three items in it which we should like to call to the attention of the committee, with the idea particularly of making some modifications to meet specific conditions which would then confront us if the bill were passed as it is today.

In the first place, from an immediate point of view, a considerable number of colleges and universities have made provisions for adequate annuities, which already puts a heavy burden upon the funds available for our pay rolls. Certain colleges feel that they are con-

tractually bound, unless this bill were to be so ordered as to recognize these obligations. This bill, as it now stands, it seems to us, would put a second tax upon our already too meager funds, so we simply call that particular item to the attention of the committee at this time.

In the second place, the institutions have gone much further in such matters as tenure of services, and in such matters as of adequately protecting the pay rolls of the institutions, and industrial institutions, and I would respectfully submit the following statement to that end.

These institutions, dedicated to the service of mankind and not engaged directly or indirectly in carrying on their activities for profit, sympathize deeply with the board humanitarian purposes of the President's social-security program embodied in what is styled the "Economic Security Act." They wish, however, to point out to the Senate committee that, perhaps through inadvertence, this bill departs from a century-old public policy of English and American law and fails to exempt from the taxes imposed by the act, institutions organized and operated exclusively for religious, educational, and charitable purposes. The purposes of this memorandum are not in any respect to place these institutions in opposition to the objects of the bill, but to point out as earnestly as possible to the committee that the historic conception of public policy mentioned above operates as strongly in respect of the taxes imposed by this act as it does in respect of all other taxes from which, for centuries, institutions of this character have been exempted.

Taxes are a forced levy which the Government imposes upon the great body of its citizens to provide for in the historic language of the Constitution—the common defense and the general welfare. For many centuries it has been believed that public policy was best served by exempting from these general levies institutions which were engaged exclusively in religious, educational, and charitable activities in order that they might be better enabled to pursue their humanitarian purposes. From a broad point of view they have always been regarded as arms of the Government. In the last analysis the problem has always been one, and always must be one, of evaluating social methods, for insofar as the Government diminishes by taxes the resources of educational and charitable organizations, it diminishes their capacity for service to their several communities and increases the burdens which must fall upon the Government.

This was never more true than at the present time. The incapable result of imposing financial burdens upon these institutions at the present time is to enforce the curtailment of their activities in the very hour when the demand for their services to the community is greatest. There never was a time when the need for educational institutions, for hospitals, for medical research, or for the care of the destitute was greater than today. To meet these needs privately administered institutions must look to investments which have shrunk and to contributors whose contracted incomes make them less able than ever before to respond to the appeals which are made to them.

We have said above that it has been the historic public policy of this country to exempt educational and charitable institutions from taxation. The laws of practically all States and their political subdivisions exempt from local property taxes and from special

assessments the property of religious, educational, and charitable institutions. The income tax and inheritance tax laws of the several States also provide not only that the income of such institutions is tax exempt, but the contributions made to them are deducted from the taxable income or estate, as the case may be, of private taxpayers. The laws of the Federal Government exempt these institutions from income tax and also provide that contributions made to them may be deducted by other taxpayers in computing taxable income, taxable gifts, and taxable estates. Indeed the decisions of the courts of many of the States carry this principle beyond the realm of taxation and hold that such institutions are not liable in damages for the torts of their employees. The policy behind all of the laws and court decisions is that the community is best served by permitting institutions devoted to humanitarian work to pursue their purposes with undiminished resources.

The broad purposes of the Economic Security Act are threefold. Title I provides for old-age assistance for persons who, either because they are already of advanced age or for other reasons, are not able to build up the annuities provided for in title III. Title III provides for a contributory old-age fund to which both employees and employers, shall contribute through taxes collected from the employers. Title VI provides for unemployment compensation to be provided by taxes levied upon the employers.

The taxes imposed by both title III and title VI upon the employer are a percentage of his pay roll on the theory that the industry in which the employee is engaged is socially responsible for old-age assistance and unemployment compensation and that these two factors are proper elements of cost in the article or service produced and as elements of cost must be paid for by those purchasing the articles or enjoying the services. There is here a vital difference between business organizations and educational and charitable institutions. The latter have no product or service for sale, but on the other hand are engaged solely in social service in the hope and in the belief that the results of their efforts are of benefit to humanity generally, first by developing human economy, again by reducing the human wastage which otherwise the community must bear. In fact the act itself recognizes this, because in section 3 it provides that old-age assistance, are (inmates of public or other charitable institutions." But the results of the work of these institutions is far broader than the care of the aged poor. By education and by medical care and research and in other ways their activities result in making self-supporting many persons who might otherwise become the objects of public or private care. These institutions earnestly believe and urge upon the Committee that their diminishing dollars, if left with them to be expended upon the educational and charitable purposes in which they are engaged, will lift greater burdens from the State than if taken from them for the specific purposes of this act.

Specifically, the institutions here represented urge upon the committee that the definitions of "employer", in section 307 (4) and in 606, page 43, line 23, which are now defined to exclude the Federal Government, the States, political subdivisions thereof, or other governmental instrumentalities, be broadened to include also "a corporation, or trust, or community chest, fund, or foundation, organized and operated exclusively for religious, charitable, scientific, or educa-

tional purposes, no part of the net earnings of which inures to the benefit of any private shareholder or individual, and no substantial part of the activities of which is carrying on propaganda, or otherwise attempting to influence legislation.”

On May I interpolate here that we have considered it a fundamental principle in this country that publicly administered institutions and privately administered institutions are all a part of our educational system. We started with privately administered institutions, but there is so much in common in the way of private institutions having public resources at their command, and publicly administered institutions having endowments, that you cannot make the differentiation, and none of us want in this country to make the differentiation. So we say, if we can make this broader at this point so there will be no differentiation in a fully accredited nonprofit institution engaged in education, your law would read thus: “To include also ‘ a corporation, or trust, or community chest, fund, or foundation, organized and operated exclusively for religious, charitable, scientific, or educational purposes, no part of the net earnings of which inures to the benefit of any private shareholder or individual, and no substantial part of the activities of which is carrying on propaganda, or otherwise at tempting to influence legislation.’ ”

The result of this amendment would not be in any way to deprive the employees of these institutions of the economic security which the act is designed to give them. It would simply result in enabling these institutions to continue the social work in which they are engaged by exempting them, in accordance with historic precedents, from taxes which would bear upon them with peculiar force. For these institutions, probably to a much greater extent than any business organizations, find a very large part of their annual budget devoted to compensation for services. They do not buy and sell or manufacture commodities. Their activities consist in the rendering by human beings of services to other human beings. Thus a much greater percentage of their total expenses consists in pay roll. Thus a tax based upon pay roll would take a greater proportion of their income than would be the case in a business organization. Furthermore, they have no source such as the cost of goods or services sold from which to recover this loss of resources. The only possibility open to them is to curtail their activities, and retrenchment in their case must mean not only the creation of the very unemployment which the act is designed to prevent, but also the curtailment of vitally needed social work.

Furthermore, the imposition of pay-roll taxes upon these institutions would not only be a departure from the historic precedent of taxation which we have already referred to, but would establish at the same time conflicting policies of taxation by the Federal Government, for the revenue act not only are these institutions exempt, from income tax—Revenue Act of 1934, section 101 (6)—but contributions to them are deductions from the taxable income, gifts, or estates of the contributors—Revenue Act of 1934, section 23 (o); Revenue Act of 1932, section 505 (a) (2), and Revenue Act of 1926, section ,303 (a) (3).

Thus the Federal Government will be in one series of acts encouraging the activities of private educational and charitable institutions by exempting their income and contributions made to them from tax,

while at the same time in other legislation it will be curtailing their activities by taking back in taxes some of the very income which it has already exempted. In harmony with the national policy respecting institutions of this kind followed up to this time is the action taken by the National Recovery Administration on or about September 8, 1933, "That schools, colleges, universities, churches, hospitals, and charitable institutions supported by public subscriptions, not operated for profit, except so far as they may be engaged in the operation of trade or industry, need not come under the provisions of the National Recovery Act." Congress, we believe, is not prepared to depart from the wise policy which for so many years has believed it desirable to foster private educational and charitable institutions. While the demands upon the State are continually increasing, and while the State now conducts both educational and charitable institutions, it is wise policy to continue as many of these activities as possible in privately administered organizations. The contributions which private organizations in the field of education, medicine, and research have made are clear proof of their value. They are a clear indication that such a drastic change in the system of education and the manner of caring for the sick as would result if private institutions as the result of taxation should be forced to become public institutions, is not one which we believe that Congress would willingly bring about.

We have said that the amendments which we have suggested will not deprive the employees of these institutions of any degree of economic security. So far as old-age systems are concerned, title I of the act recognizes that there will always be many persons who cannot be cared for under the contributory old-age annuities provided for in title III. Title I, undertakes to provide for their future by public funds, equally contributed by State and Federal Governments. These persons are not merely those who, at the present time, are of such advanced age that they will not be able to build up contributory annuities. They also include the large number of persons who are employed by State and local governmental instrumentalities, and the even larger number who are not employed but who conduct small businesses of their own. Sound weighing of social values would place in this group such employees of charitable institutions who are not able during their active period to provide for their old age.

Turning to the subject of unemployment, we believe that the considerations which make desirable a tax upon the pay rolls of business organizations in times of prosperity to provide a fund for unemployment compensation in times of depression, are not applicable to educational and charitable institutions. There is comparatively little unemployment in this field. The tenure for a large proportion of the teachers in privately administered institutions is permanent. During periods of depression, the work which these institutions are called upon to perform increases rather than diminishes. On the other hand, if the income of these institutions is diminished by a pay-roll tax which, as we have pointed, must bear with peculiar force upon them, there is a certainty that their activities must be curtailed and the number of their employees considerably diminished.

Furthermore, an unusually large percentage of those receiving compensation from these institutions would not participate in unemployment insurance benefits under the act, since approximately 60 percent of the persons on their pay roll are professional persons, or administra-

tive officers receiving more than **\$250** a month. And, finally, it should be pointed out that the exemption of these institutions from the payroll tax proposed by section **601** would not mean that should any unemployment among their employees result, they would not, under State plans, be entitled to unemployment benefits. It would simply mean that just as the salaries of these persons when they are working are a social cost borne by contributions, so their compensation if unemployed would be a social cost borne by general taxation.

In presenting these views, the institutions here represented **are** not moved by any narrow or selfish interest. The funds which they expend are not their funds. They are given to them in trust by those who believe that the ends which they pursue are of paramount social importance. In the past, both the Federal and the local governments, have had this same belief, and have acted upon the policy that social ends were best served by permitting these institutions to expend their trust funds for their educational and charitable purposes, without diminution by taxation. These institutions believe that this policy is more than ever sound at the present time and as applied to the present legislation.

The **CHAIRMAN**. Thank you, Doctor. That matter will be taken under consideration.

Professor James R. Kirkland, American Council on Education.

Dr. **MARVIN**. Professor Kirkland yields his time this morning.

The **CHAIRMAN**. Thank you very much. Miss Grace Abbott. Miss Abbott is editor of the Social Service Review and professor of public welfare, University of Chicago.

STATEMENT OF MISS GRACE ABBOTT, CHICAGO, ILL., EDITOR,
SOCIAL SERVICE REVIEW AND PROFESSOR OF PUBLIC WELFARE,
UNIVERSITY OF CHICAGO

Miss ABBOTT. I wanted to speak about several of the points in the bill in which I am especially interested because of my **previous** work. I am most interested in the child-welfare and **child-health** aspect of the bill. However, I think we should say that in its larger aspect **the whole** measure will promote the welfare of children, because the welfare of children is promoted by unemployment compensation and even by old-age insurance and annuities, because the burden of the care of the aged upon those in middle age must usually be balanced against the proper care for the children. So that in the undertaking of this burden, we really get relieved by the family budgets considerable sums to go for children. So that in many respects this whole recognition of Government responsibility for social security means that the place of the child will also be made much more secure than it has been in the past.

I wanted to speak especially, before I talk about the child-welfare measures which are more specific in the bill, about the **unemployment-compensation** provisions, especially about the form in which the bill is drawn and the fact that, to a very considerable extent, standards are omitted from the bill.

I am really very much in favor of this form of the bill. I come to this conclusion because I think it represents a national scheme with State cooperation, and I think, after all, that is about the most that we ought to expect in our federal form of government. If it is upheld