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 II. Marvin, representing the American Council on Education.

STATEMENT OF DR. CLOYD II. 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:)

CONSTITUENT MEMBERS AND THEIR DELEGATES FOR 1934-35

American Association of Colleges of Pharmacy
   Rufus A. Lyman, College of Pharmacy, University of Nebraska, Lincoln, Nebr
   Charles H. Lawall, Philadelphia College of Pharmacy and Science, Phila-
   delphia, Pa.
   J. G. Beard, School of Pharmacy, University of North Carolina, Chapel
   Hill, N. C.

American Association of Dental Schools:
   J. Ben Robinson, Baltimore College of Dental Surgery, Baltimore, Md.
   W. F. Lasby, College of Dentistry, University of Minnesota, Minneapolis,
   Minn.
   R. S. Vinsant, 1726 Madison Avenue, Memphis, Tenn.

American Association of Junior Colleges:
   E. Q. Brothers, Little Rock Junior College, Little Rock, Ark.
   Doak S. Campbell, George Peabody College for Teachers, Nashville, Tenn.

American Association of Teachers Colleges:
   Lida Lee Tall, State Normal School, Towson, Md.
   Robert M. Steele State Teachers College, California, Pa.
   Uel W. Lamkin, State Teachers College, Maryville, Mo.
American Association of University professors:
  H. G. Doyle, George Washington University, Washington, D. C.
  H. C. Lancaster, Johns Hopkins University, Baltimore, Md.
  H. W. Tyler, 744 Jackson Place, Washington, D. C.

American Association of University Women:
  Kathryn McHale, 1634 Eye Street NW, Washington, D. C.
  Esther L. Richards, Johns Hopkins Hospital, Baltimore, Md.
  Belle Rankin, 1634 Eye Street NW, Washington, D. C.

American Library Association:
  George F. Bowerman, Public Library, Washington, D. C.
  Joseph L. Wheeler, Pratt Library, Baltimore, Md.

Association of American Colleges:
  Benjamin F. Finney, University of the South, Sewanee, Tenn.
  S. P. Capen, University of Buffalo, N. Y.
  H. M. Wriston, Lawrence College, Appleton, Wis.

Association of American Medical Colleges:
  (Delegates not yet appointed.)

Association of Land-Grant Colleges:
  R. M. Hughes, Iowa State College, Ames, Iowa.
  J. G. Lipman, Rutgers, University, New Brunswick, N. J.

Association of Urban Universities:
  R. A. Kent, University of Louisville, Louisville, Ky.
  Raymond Walters, University of Cincinnati, Cincinnati, Ohio.

Council on Medical Education and Hospital of the American Medical Association:
  Reginald Fitz, 721 Huntington Avenue, Boston, Mass.
  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:
  Will Shafroth, 730 Equitable Building, Denver, Colo.
  Alexander B. Andrews, 239 Fayetteville Street, Raleigh, N. C.
  John Kirkland Clark, 72 Wall Street, New York City.

Dental Education Council of America:
  Henry L. Banzhaf, 1217 West Wisconsin Avenue, Milwaukee, Wis.
  Albert L. Midgley, 1108 Union Trust Building, Providence, R. I.

Department of Superintendence, National Education Association:
  Frank W. Ballou, superintendent of schools, Washington, D. C.
  David E. Weglein, superintendent of schools, Baltimore, Md.
  S. D. Shankland, 1201 Sixteenth Street NW, Washington, D. C.

Institute of International Education:
  William F. Russell, Teachers College, Columbia University, New York City.

Middle States Association of Colleges and Secondary Schools:
  H. G. Doyle, George Washington University, Washington, D. C.
  Boyd Morrow, Gilman Country School, Baltimore, Md.

National Association of State Universities:
  E. B. Bryan, Ohio University, Athens, Ohio.
  Lotus D. Coffman, University of Minnesota, Minneapolis, Minn.
  A. H. Upham, Miami University, Oxford, Ohio.

National Catholic Educational Association:
  Rt. Rev. Edward A. Pace, Catholic University, Washington, D. C.
  Rev. George Johnson, 1312 Massachusetts Avenue, Washington, D. C.

National Education Association:
  George D. Strayer, Columbia University, New York City.

North Central Association of Colleges and Secondary Schools:
  Charles H. Judd, University of Chicago, Chicago, Ill.
  Charles H. Lake, Superintendent of Schools, Cleveland, Ohio.
  H. M. Wriston, Lawrence College, Appleton, Wis.
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Progressive Education Association:
Laura Zirbes, Ohio State University, Columbus, Ohio.
Frederick Redefer, 716 Jackson Place, Washington, D. C.
Willard W. Beatty, Bronxville Public Schools, Bronxville, N. Y.

Society for the Promotion of Engineering Education:
L. W. Wallace, Woodward Building, Washington, D. C.
C. H. Warren, Yale University, New Haven, Conn.
F. L. Bishop, University of Pittsburgh, Pittsburgh, Pa.

Southern Association of Colleges and Secondary Schools:
K. J. Hoke, College of William and Mary, Williamsburg, Va.
Guy E. Snively, Birmingham-Southern College, Birmingham, Ala.

ASSOCIATE MEMBERS

American Association for the Advancement of Science.
American Association of Collegiate Registrars.
American Council of Learned Societies.
American Historical Association.
American Physical Education Association.
American-Scandinavian Foundation.
C. R. B. Educational Foundation.
Education Council Y. M. C. A.
Federated Council on Art Education.
Modern Language Association of America.
National Advisory Council on Radio in Education.
National Association of Deans of Women.
National Council of Business Education.
National Council on Religion in Higher Education.
National Council of Teachers of English.
National Research Council.
National Society of College Teachers of Education.
National Vocational Guidance Association.
United Chapters of Phi Beta Kappa.

INSTITUTIONAL MEMBERS, 1934–35

Alabama:
Alabama Polytechnic Institute
Alabama University of
Birmingham-Southern College
Tuskegee Normal and Industrial Institute

Arizona:
Arizona, University of

California:
California Institute of Technology
College of the Pacific
Dominican College
Immaculate Heart College
Mills College
San Francisco, University of
Southern California, University of
Stanford University

Colorado:
Colorado College
Colorado State Teachers College
University of Denver

Connecticut:
Albertus Magnus College
Connecticut Agricultural College
Connecticut College
Junior College of Connecticut
Wesleyan University
Yale University

Delaware:
Delaware, University of

District of Columbia:
American University
Catholic University of America
Georgetown University
George Washington University
Howard University
Trinity College

Florida:
Florida State College for Women
John B. Stetson University
Rollins College
University of Florida

Georgia:
Agnes Scott College
Emory University
Georgia School of Technology
Georgia State College for Women
Georgia, University of
Shorter College

Hawaii:
Hawaii, University of

Illinois:
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Chicago, University of
De Paul University
Illinois College
Illinois-Continued.
Illinois, University of
Lake Forest College
Lewis Institute
Northwestern University
Rockford College
Rosary College
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Indiana:
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Indiana State Teachers College
Indiana University
Notre Dame, University of
Purdue University
Rose Polytechnic Institute
St. Mary's College, Notre Dame
St. Mary-of-the-Woods College

Iowa:
Coe College
Grinnell College
Iowa State College of A. & M. A.
Iowa State Teachers College
State University of Iowa

Kentucky:
Kentucky, University of
Louisville, University of

Louisiana:
Louisiana State Normal College
Louisiana State University
Southwestern Louisiana Institute
Tulane University

Maine:
Bowdoin College

Maryland:
Goucher College
Hood College
Johns Hopkins University
Loyola College
Mount St. Mary's College
Notre Dame College
St. Joseph's College
Western Maryland College

Massachusetts:
Boston College
Boston University
Bradford Junior College
Clark University
Emmanuel College
Harvard University
Holy Cross College
International Y. M. C. A. College
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Radcliffe College
Regis College
Simmons College
Smith College
Wellesley College
Whitman College

Michigan:
Albion College
Alma College
Avarygove 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

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Millsaps College
Mississippi State College

Missouri:
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Lindenwood College
Missouri, University of
Northwest Missouri State Teachers College
The Principia
St. Louis University
Washington University
Webster College

Nebraska:
Nebraska, University of

New Hampshire:
Dartmouth College
New Hampshire, University of

New Jersey:
College of St. Elizabeth
Georgian Court College
Rutgers University
Seton Hall College
Stevens Institute of Technology

New Mexico:
State University of New Mexico

New York:
Adelphi College
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
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 recog-
nize 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 broad 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 de-
parts 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 humani-
tarian purposes. From a broad point of view they have always been 
regarded as arms of the Government. In the last analysis the prob-
lem 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 ines-
capable 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 attempting 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