

LC 186

.M4E43

LIBRARY OF CONGRESS



0 029 498 852 A

Hollinger Corp.
pH 8.5

h. C. 126
M 4 E 43

COLLEGE TAXATION

REMARKS OF CHARLES W. ELIOT, PRESIDENT OF HARVARD UNIVERSITY, BEFORE THE JOINT COMMITTEE ON TAXATION, MASSACHUSETTS LEGISLATURE, MARCH 13, 1907

The advocates of the several measures proposed for taxing colleges use as one argument in support of their proposals an alleged ambiguity in the present statute, an ambiguity which has given rise to litigation. If there be any ambiguity in the present statute, the opponents of the new legislation would be glad to have it removed; so that the intention of the Legislature to exempt from taxation institutions of religion, education, and charity may be expressed with perfect clearness. It is hard to see, however, how language can be plainer than the language of the exemption statute. Proposals to change the statute, or to reduce the field of its operation, are not properly described as proposals to remove ambiguity from the statute. Moreover, the proposed new acts contain the very phrase over which litigation has arisen, "occupied by them or their officers for the purposes for which they are incorporated." The courts have repeatedly been called upon to define the meaning of that term, "the purposes for which they are incorporated." Senate Bills Nos. 53, 54, and 224 retain this clause. House Bill No. 474 does not contain that phrase, because that bill relates solely to the repayment by the Commonwealth of one-half of any tax assessed by a city or town on an educational institution. Moreover, Senate Bill No. 54 introduces a new phrase which will be sure to give rise to extensive litigation. It declares that "property owned and occupied by any college or university, or by any scientific institution authorized to grant degrees, which is used or appropriated, wholly or in part, for residential, commercial, or mercantile purposes, or for dormitories, shall not be exempt from taxation." What are the commercial or mercantile purposes of a college, or university, or technical school? There are none. At Harvard University, for instance, there are no such purposes in any proper

sense of those terms. Commercial or mercantile purposes invariably involve the application of a profit to private uses. Every man or corporation engaged in commerce, manufacturing, or trade is looking for a personal or private profit on every transaction. If he is not seeking that profit, he is not in business.

LETTING COLLEGE ROOMS NOT A COMMERCIAL TRANSACTION

During the hearing on last Thursday, we several times heard the letting of rooms to students described as a commercial transaction on the part of a college. This description is obviously incorrect. It is not a commercial operation for a college to let rooms to students; because there is no profit whatever in it for any private individual. If, for the college itself, there is ever a balance of receipts over expenses on a dormitory, every dollar of that balance is applied to the public use of teaching. We also heard of the Harvard Coöperative Society as carrying on an un-taxed mercantile business in competition with taxed shops about Harvard square. I am glad to explain the case of the Harvard Coöperative Society; because it perfectly illustrates the real principle which underlies this whole subject. The Harvard Coöperative Society was formerly a society confined to members of the university, and intended to enable them to buy such goods as they needed — clothing, stationery, shoes, bats and balls, brushes, soap, etc. — for less money than they could be bought for in the ordinary retail shops. There was no profit to any individual connected with it, except this advantage of buying good articles at lower rates than were elsewhere procurable. It was an aid or a facility for students in getting an education, exactly like the college dining-hall which yields no profit to anybody concerned, but enables students to buy their food cheaper than would otherwise be possible. A few years ago it was thought expedient to incorporate the Harvard Coöperative Society, and to carry on a general business, not for students only, but for all comers. Up to that time, the Society had occupied a college building which was not taxed. As soon as it was incorporated, the Society bought from a private person the large building on the opposite side of Harvard square, where its excellent business is now conducted; but on that building, and its other property, the Society pays taxes just like any other shop in Cambridge. In other words, so long as its business was confined to members of the University, and offered them, and them alone, a pecuniary advantage in buying



Gift

The University

the necessities of student life, it was exempt from taxation; but the moment it did a general business open to everybody, and conducted under the general incorporation law, it became subject to taxation; it had ceased to be purely an aid to students in getting their education.

EXEMPTION IS BASED ON APPLICATION OF INCOME TO A PUBLIC USE

I cannot too strongly insist that in the ordinary mercantile sense there is never any "profit" on the operations of a college, university, or technical school. It is confusion with regard to the use of this word "profit" which explains the presentation of many of the fallacious arguments I have heard this year and in many former years before committees of the Legislature examining the question of college exemptions. Every source of income of a college or university may be described in some inexact or ill-considered sense as yielding a profit; but every source of income in an institution of education, religion or charity, has a public application, and is not yielding a profit in the commercial or mercantile sense. It is curious that this confusion of thought arises most commonly concerning presidents' and professors' houses, dormitories and athletic grounds, and sometimes concerning dining-halls or refectories, but very seldom concerning the income from railroad stocks and bonds, public securities, mortgages, or other like sources of income. I think I have never heard anyone propose at legislative hearings in Massachusetts that the personal property of institutions of religion, education, and charity should be taxed. The taxing proposals relate to real estate used, as the statute says, "for the purposes of the institution." Now the plain fact is that the application of the whole income of these exempted institutions is the same, and there is no good reason for exempting one class or sort of property which does not apply to the whole property. The reason for the exemption is that the whole property of exempted institutions and all the income thereon is used for public purposes. When a college lodges and feeds students it usually competes with private persons who also perform these functions. That competition is an aid to students, and as such is one of the incentives for colleges to maintain dormitories and dining-halls.

One advocate of taxing colleges last Thursday asked this question, "Suppose a college did nothing else but let dormitories; should not those dormitories be taxed?" Of course they should.

Such an institution would not be a college at all. It would be nothing but a provider of rooms for college students at a mercantile profit. That is exactly the business of the trustees or individuals who provide dormitories for students in Cambridge for the private profit of the owners. Such dormitories are a private investment, and their net rents are used for nothing but a private purpose; accordingly, they are all taxed, and the present valuation for taxation of such buildings in Cambridge is \$2,519,900. (See p. 13.)

TAXATION OF PROFESSORS' HOUSES AND DORMITORIES MEANS
DIVERSION OF FUNDS FROM THEIR PRESENT PUBLIC USE

The advocates of the legislation which would cause professors' houses and dormitories to be taxed all protest that they have no desire to injure Massachusetts institutions of education. They find themselves unable to face squarely that imputation. Yet what they propose would take many thousands of dollars out of the income of these institutions now devoted to teaching, and apply it to streets, sewers, lights, police, fire department, etc., in the cities and towns where these institutions of education are situated. Thus Senator Feiker indicated clearly that he desired to secure for Northampton the full tax on \$400,000 of the property of Smith College. That, to be sure, is only a portion of the property of Smith College; but if Senator Feiker had his way he would subtract \$6,800 from the annual resources of Smith College applicable to education, and spend that money on the schools, highways, sewers, police, etc., of Northampton. He would damage Smith College just so much, and relieve taxpayers in Northampton by the same amount, in spite of the fact that the presence of Smith College has done nothing but good to the property holders and business men of Northampton, — a fact which was demonstrated before the Recess Committee on Taxation last October beyond the shadow of a doubt, Northampton having been shown to have 35½ per cent. of the taxable property of Hampshire County, when it has only 30½ per cent. of the taxable individuals, and only 32 per cent. of the population of the County. In other words, Northampton is much better off than the average of the County.

Another advocate of taxing professors' houses and dormitories suggested that Senate Bill No. 54 would probably not make more than a million dollars' worth of college property assessable in

Cambridge, and that taxes on such an amount would be a trifle for Harvard University. True, such legislation would not ruin Harvard University; it would simply divert \$19,000 a year, or four professors' salaries, from teaching purposes to the ordinary Cambridge objects of municipal expenditure; but so far as it went it would be nothing but an injury to Harvard University, and whoever advocates it is advocating the diversion of money heretofore used for educational purposes to lower public uses, namely, city expenses. So far forth, he is impairing the Massachusetts faith in education as the supreme public interest. I make allowances for the errors of some of the advocates of these pitiful measures, when I see that they are not Massachusetts born, and cannot be expected to understand the Massachusetts policy towards education so well as those of us who are natives; but I want to point out plainly that their protests that they are not attacking, or attempting to injure, Massachusetts institutions of higher education, do not blind or deceive anybody.

PROPERTY EXEMPTED FOR A PUBLIC USE ENRICHES A COMMUNITY

The attorney for the town of Amherst made much of the fact that the valuation of property exempted in the town of Amherst was 47 per cent. of the whole valuation of the town, or, in other words, that in Amherst the value of the exempted property was almost as great as the value of the assessable property; and he seemed to think that this fact proved that the presence of Amherst College and the State Agricultural College in the town of Amherst was a burden on that town. Before the Recess Committee on Taxation, last October, it was conclusively proved that the amount of exempted property in a city or town gave no indication whatever of the financial condition of the town itself, provided the amount of assessable property was well proportioned to the number of assessable persons in the town; that some Massachusetts cities and towns in which the amount of exempted property was large were decidedly more prosperous than similar cities and towns in which the amount of exempted property was small; that the most probable supposition was that a town with large amounts of exempted property would be a better town to live in, and therefore a more prosperous town, than a place with a small amount of exempted property in churches, colleges, schools, hospitals, and parks; but, at any rate, that the existence of a large amount of exempted property gave no indication that the

town was financially oppressed or burdened. Thus, the total amount of exempted property in the city of Boston is enormous, and is increasing: as the value of land in the best parts of the city rises, handsomer and better-planned buildings are erected for religious, educational, and charitable purposes, and parks and playgrounds increase in number and in value.

Consider for a moment what Boston Common means in the way of exempted value. Consider that the Harvard Medical School alone has lately added three millions of dollars to the value of property exempted in Boston, and will, within a few years, add as much more, through the hospitals which are to be built about the Medical School. Consider what the presence of this State House means in the way of exempted property for the city of Boston. Consider the great parks and parkways which Boston has built and set aside forever for public enjoyment. And then realize fully that all these exempted properties in Boston make it richer and not poorer; that they are not a burden; but a priceless possession, not only for the present, but for future generations.

EXEMPTION AN IMAGINARY BURDEN

To return to Amherst. Amherst, probably because of the presence within her limits of Amherst College and the State Agricultural College, has a lower tax rate than Ware, Easthampton or South Hadley, comparable towns, except that they have not nearly so much exempted property as Amherst. The tax rate in Amherst is decidedly lower than the average tax rate of the County. It has $8\frac{1}{2}$ per cent. of the population of the County, but 8.8 per cent. of the taxable individuals residing in the County, and 10 per cent. of all the taxable property in the County. If the presence of exempted property within the limits of the town were a burden, Amherst's burden would indeed be large. Its singularly prosperous condition as compared with the rest of the County proves that the presence of its large proportion of exempted property is no burden at all, but simply an advantage. With a few insignificant qualifications, the same is true of all the towns and cities in the Commonwealth which enjoy the presence of colleges or universities. No burden falls upon them in consequence of the exemptions within their limits; but, on the contrary, their financial condition is better than that of the towns and cities which do not enjoy the presence of valuable educa-

tional institutions. And yet the ears of this Committee and of many earlier Committees have been wearied with cries for relief from a burden which is wholly imaginary.

REIMBURSEMENT OF TOWNS NOT CALLED FOR, THERE BEING NO
LOCAL BURDEN

The same argument to an imaginary burden is used in support of the various proposals that the Commonwealth shall hereafter annually pay to every city or town in which an educational institution is situated the whole or one-half of the tax levied upon the property of such institution. This proposition assumes that there is a local burden resulting from the legislation of the Commonwealth in favor of religious, educational, and charitable institutions; it admits that it is the duty of the Commonwealth to aid such institutions, but insists that the Commonwealth should not force the cities and towns where these institutions are situated to give that aid, but should give the aid itself. If, as I have pointed out, the legislation of the Commonwealth imposes no burden on the towns and cities in which these exempted institutions are situated, the whole argument for annual payments from the treasury of the Commonwealth to these towns and cities falls to the ground. The accompanying allegation that Massachusetts has not really aided these institutions of education and charity has no foundation. Massachusetts has cherished her colleges and technical schools by direct grants, and she aids some of them still in that way, besides supporting the State Agricultural College and the normal schools. You may still see at Harvard College the president's house which the Province of Massachusetts built and gave to the College. You may still see there three other venerable buildings which the Province built and gave to the College, two of them built for dormitories and one for the other public uses of the College. Between 1636 and 1824 Harvard College received the sum of \$216,000 in numerous small grants made by the Commonwealth in aid of the College. To-day, the Commonwealth is paying \$25,000 a year to the Massachusetts Institute of Technology. The Province and the Commonwealth have aided the institutions of higher education, and the Commonwealth is still aiding them. The exemption statute itself is effective cherishing. The Legislature of Massachusetts is far too intelligent to be influenced by the false statement that she neglects to cherish her institutions of higher education, and is also

too intelligent to vote to pay large sums of money to the cities and towns which contain colleges or universities, in order to relieve those communities from a wholly imaginary burden. Let me remark in passing that under House Bill No. 474 the Commonwealth would annually pay to the city of Cambridge at least \$200,000 a year, with the sole result of reducing to that extent the tax levied on the taxable citizens of Cambridge. Cambridge already possesses more than 18 per cent. of the taxable property in Middlesex County, while it has but 16 per cent. of the population of the County. Senate Bill No. 53 proposes that the whole of the tax levied locally on the real estate belonging to literary and scientific institutions shall be paid by the Commonwealth to the city or town which contains the exempted institutions; under such a law an immense sum would be annually payable to the city of Boston out of the State Treasury, since Boston contains a large number of exempted literary and scientific institutions which own costly lands and buildings. To be sure, under such legislation (if I understand it) the exempted institutions would not suffer any reduction of the resources applicable to their public objects, but the State Treasury would suffer severely, not for the promotion of religion, education, or charity, but to relieve the citizens of certain privileged cities or towns from a burden which is wholly imaginary, or, in other words, to give those fortunate cities and towns a large pecuniary bonus in addition to the advantages which they derive from the presence of the exempted institutions. It would be a striking peculiarity of such legislation that the more the value of land rose in the vicinity of the exempted institutions, in consequence of the good effects of those institutions on the towns and cities in which they are situated, the larger would be the payment made to those towns and cities by the Commonwealth. Thus, the value of the land about the site of Harvard College in Cambridge has risen very much within the last ten years, and is likely to rise, because of the presence of the College. The higher goes the price of land in its vicinity the higher will be the assessors' valuation of the territory occupied by the College, and the greater will be the sum to be paid annually from the State Treasury to the city of Cambridge. In general, the more prosperous the city of Cambridge or the city of Boston became, a prosperity indicated in the values of Cambridge or Boston real estate, the larger would be the sums annually to be paid by the Commonwealth to the city.

EXCESSIVE VALUATIONS

A single foolish purchase by a small but rich college club of a corner lot opposite the College at an extravagant price induced the Cambridge assessors to raise the valuation of large areas of land about the site of the College, and to add correspondingly to their valuation of real estate exempted in Cambridge. The additions they made to the valuations were extravagant; so that they were forced subsequently to retrace some of the steps they had taken. Consider how the temptation to excessive valuation of real estate, to which assessors are now subject, would be increased, if for every increase of valuation in the real estate of their town or city they could suck thousands of dollars out of the State Treasury, under such legislation as that of Senate Bill No. 224 or House Bill No. 474.

MASSACHUSETTS DOES NOT GRUDGE THE NATIONAL SERVICE
RENDERED BY ITS COLLEGES

I heard on Thursday last with pleasure and surprise, one new argument in favor of putting the support of every institution of higher education on the state or the nation, rather than on the locality in which the institution is situated. Of course, this new argument assumed, what is conspicuously untrue, that the locality carries a burden in support or aid of the institution of education; but overlooking for a moment that ancient fallacy, there was a new element in the argument, namely, that while a church is a purely local institution, a college or technical school is not; for the college or technical school is resorted to by students from all parts of the state, or all parts of the country, and, therefore, the state, or the whole country, ought to support it or aid it. Thus students from many parts of the country and some foreign countries resort to Amherst College. Why should the town of Amherst do anything for them? The first answer to this question is that the town of Amherst does not support Amherst College, or even contribute to its support. The College is supported partly by the students who resort to it and pay its tuition fees, and partly by the benevolent individuals in many parts of the country who endowed it under the protecting and cherishing laws of Massachusetts. How short-sighted and ungenerous is this argument! Can we suppose that the people of Massachusetts, or of any town or city in Massachusetts, really

desire that the resort to Massachusetts institutions of education should become less national in range? Do the people of the Commonwealth grudge to the students who come to our excellent institutions of education from other parts of the country or from other countries, the facilities they seek and find in Massachusetts institutions? Do the people of the Commonwealth really desire to check the flow of gifts and benefactions from outside of Massachusetts to these institutions of higher education? It is incredible that they should feel any such desire. The people are proud of the reputation of the Massachusetts institutions of higher education. They welcome to these institutions students from all other parts of the country and from other countries; and they take especial pride in promoting in every possible way the Massachusetts industry of giving instruction. Moreover, they know that an institution to which students resort from far and wide will be for that reason a better and more influential institution. It would be easy to check both the flow of students and the flow of money into the Massachusetts institutions. Would the General Board of Education, lately so largely endowed, give any support to Massachusetts institutions if they could suppose that Massachusetts was going to tax educational benefactions? Would the great stream of benefactions continue to flow to Massachusetts institutions if intending givers learned that Massachusetts entertained a proposal to tax any part of the properties set aside forever under the existing laws of Massachusetts for the purposes of higher education? It has been repeatedly said, during the discussion of these bills which propose to tax certain portions of college property, that the immediate damage caused by this legislation would be small. True, the edge of the wedge is thin, and it is not proposed at this moment to drive it in very far; but no prudent man will permit even a thin wedge to be inserted into the post which supports the corner of his dwelling. This proposed legislation, petty as it is in its immediate effects, will go far to impair confidence in the stability of the great Massachusetts policy for the support of the higher education, a policy which has contributed largely to make Massachusetts what it is, a policy which has produced institutions of education as yet unsurpassed in the entire country.

NO EVIDENCE THAT TAXED LAND IS RENDERED EXEMPT FASTER
THAN COMPENSATING BENEFITS ARE DIFFUSED

I turn now to consider some of the predictions about the future effects of insistence on the part of Massachusetts in her present policy of exempting from taxation her institutions of higher education. It is said that under the exemption policy of Massachusetts the colleges and other exempted institutions are continually taking more and more of the real estate of their towns or cities out of the taxable lists by buying private property which has heretofore been taxed, and adding such property to the real estate already devoted to their own educational purposes, thus progressively diminishing the assessable valuations of their towns or cities. On this suggestion of future evil several reassuring comments may be made. In the first place, when a college or hospital buys private property in its vicinity, it pays for it, and the price it pays ordinarily remains as taxable property in the town or city. Occasionally exceptions to this rule will occur; but such is the rule. In the next place, by increasing its holdings, a college usually increases the valuations of the lands lying about or near its holdings, old and new. Thirdly, when a college increases its holdings, other lands in the same town or city usually come into use and acquire a new value. There is plenty of unoccupied land in every Massachusetts town or city which harbors a college, waiting to experience this rise of value. In the city of Cambridge there are at this moment hundreds of acres of unmarketable land waiting for Harvard University, or new industries, or new residences to give them value. Fourthly, it is clear that there is no existing evil of this sort within the Commonwealth; and that it is never expedient to legislate against non-existent evils. All the towns and cities in the Commonwealth which contain institutions of higher education are to-day better off in regard to their several amounts of taxable real estate than the corresponding towns and cities which do not contain colleges. This is not a matter of opinion; it is demonstrable from the published tables of the Commonwealth's Tax Commissioner. If, in the future, any evil of this sort shall appear locally, it will probably not be beyond the ingenuity of the Legislature, aided by the assessors, to devise a local remedy.

PUBLICITY OF ACCOUNTS A PROPER CONDITION OF EXEMPTION, AND
THE ONLY NEEDED DEFENSE AGAINST ITS ABUSE

Finally, we must consider what weight to attribute to a line of argumentation always used by the advocates of taxing colleges. They say — where there is so much smoke there must be fire; where there is so much sense of injury there must be some injustice; this proposed legislation is bound to come, therefore it had better come now. Doubtless there is fire under this smoke. There is the fire of ignorance, the fire of jealousy, and the fire of natural desire to get one's own taxes reduced by acquiring the right to tax large masses of visible property which now are exempted. There is also the burning zeal of assessors eager to get hold of new resources for taxation. The right way to deal with these smoky fires is to put them out by means of the cooling streams of knowledge, unselfishness, and public spirit, and of wise legislation to improve our methods of taxation. The argument that something is bound to come, and therefore shall arrive now, ought to be put out of court without ceremony as wholly unworthy of intelligent freemen. It is not destiny which has made Massachusetts; it is Massachusetts that has carved out her own destiny. The traditional policy of Massachusetts needs, in my opinion, only one defense, and that is, a complete publicity concerning its own workings. If only the whole people of the Commonwealth could be shown just how the endowment and exemption policy has worked, and is working, for the highest interests of Massachusetts, the people would not permit that policy to be tampered with. I am not sure that existing legislation has adequately procured this very desirable complete publicity; indeed, the amount of misapprehension on this subject throughout the Commonwealth, even among the educated classes, seems to show that the present provisions for publicity are inadequate. All the wise exempted institutions publish their annual accounts as fully as possible. I venture to suggest to this Committee that no institution or society ought to be exempted from taxation which does not publish in complete form its annual accounts. Such publication is needed to show the public that the whole income of such institutions and societies is really devoted to public uses of religion, education, or charity.

PRIVATE DORMITORIES TAXED IN CAMBRIDGE, 1905

Name of Building	Valuation of Building	Valuation of Land	Total Valuation	Real Estate Tax
Claverly Hall	\$125,000	\$42,000	\$167,000	\$3,173.00
Apley Court	55,000	27,000	82,000	1,558.00
Randolph Hall	200,000	60,000	260,000	4,940.00
Apthorp House	7,000	68,000	75,000	1,425.00
Russell Hall	47,000	35,000	82,000	1,558.00
Westmorly Court	140,000	57,000	197,000	3,743.00
Quincy Hall	20,000	12,000	32,000	608.00
Brentford Hall	60,000	11,400	71,400	1,356.60
Ware Hall	134,000	21,000	155,000	2,945.00
Fairfax Hall	73,000	72,800	145,800	2,770.20
Hampden Hall	130,000	39,000	169,000	3,211.00
Little's Bl'k, 1350 Mass. Av.	30,000	40,500	70,500	1,339.50
Little's Bl'k, 1358 Mass. Av.	25,000	43,800	68,800	1,307.20
Dunster Hall	150,000	50,000	200,000	3,800.00
Dana Chambers	70,000	45,000	115,000	2,185.00
Theta Delta Chi	23,300	12,000	35,300	670.70
Read's Block	20,000	37,000	57,000	1,083.00
Drayton Hall	35,000	7,000	42,000	798.00
Trinity Hall	15,000	5,800	20,800	395.20
Craigie Hall	110,000	18,000	128,000	2,432.00
Waverley Hall	50,000	4,200	54,200	1,029.80
Shepherd Block	10,000	8,800	18,800	357.20
Hapgood Hall	10,000	9,100	19,100	362.90
25 and 27 Holyoke St. . .	9,000	20,000	29,000	551.00
Ridgely Hall	70,000	10,000	80,000	1,520.00
68 Mt. Auburn St.	4,500	15,000	19,500	370.50
5 and 7 Linden St.	7,000	17,500	24,500	465.50
Beck Hall	58,500	36,000	94,500	1,795.50
66 Winthrop St.	3,000	3,700	6,700	127.30
Totals	\$1,691,300	\$828,600	\$2,519,900	\$47,878.10

LIBRARY OF CONGRESS



0 029 498 852 A

