

Mr. Gidney, President of the Federal Reserve Bank of Cleveland, gave the following address on December 10, 1951, at the final banquet in the celebration of Western Reserve University's one hundred twenty-fifth anniversary year.

I FEEL GREATLY HONORED to be asked by President John S. Millis, I. F. Freiberger, and Lewis B. Williams, to speak on this occasion. My qualifications to fill this spot seem to me very meager and I can only gather courage to undertake the assignment by reminding myself that I have been in business life long enough to observe from good vantage points the part which our colleges and universities have had in the great economic progress which we have had during the half century, and that no one could speak on the subject with a deeper and more sincere conviction than I.

I began to be very much aware of national affairs, though still a small boy, during the 1896 presidential campaign when William McKinley, an Ohio candidate, won the presidency with a front-porch campaign. That all seems long, long ago and quite a different day. Life was simple—not an automobile in our town—electric cars just replacing mule cars—few telephones—low incomes—some hardships—real horse-and-buggy days—good old days—and happy days but requiring material progress on many fronts to support the nation's growing population and bring about generally higher standards of living.

Education's Contribution to America

I do not need to detail the changes which have come in fifty years. To mention the old draws attention to the great contrast presented by the new. The change has been fantastic and almost beyond belief.

What has made the great changes of the half century possible for us?

(1) Natural resources; yes, but other countries have them and have not matched our progress.

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Corporate Support for Colleges and Universities

by Ray M. Gidney

(2) American character, inventiveness, capacity for hard work, adventuresomeness, the existence of widespread markets without trade barriers; yes, all of these.

But adding these to availability of natural resources—we must look for something further that has made possible the efficient utilization of these resources of nature and of manpower and intelligence.

(3) I believe this is found in the American "know how" which is so outstanding that we give it daily recognition, call upon it for every task, and are asked to export it to all parts of the world.

What has given us American "know how"? Many things—but I believe the essential contribution has been made through the development of our educational system—elementary, secondary, and university.

At the turn of the century higher education, long established and of high quality, was coming

into full bloom as it became more widely available and was sought by young men and women in constantly increasing numbers. An increasing number of young folk were finding it possible to go to college, working their way if family means were not available. (I was one of these.) Also the need for a college education, if one were to succeed fully in the business of life, was being more widely recognized. Facilities for these seekers after knowledge were being provided largely through gifts for college and university endowments. There were many individuals gathering wealth who were able and willing to make such gifts in large amounts and they helped build firm foundations for the growth of privately-endowed colleges and universities. At the same time land-grant colleges and State-supported universities were coming to high stature.

Educational Opportunity of the Recent Past

In my native state (which I modestly admit to be California) two great institutions were at a well-advanced stage of development. Stanford University was founded through the generous gifts of Senator Leland Stanford, and the University of California was State supported but also the recipient of large gifts from many wealthy individuals. Many of my boyhood friends were going to these institutions, many of them also were working their way. The opportunity was there and the young men and women of the day were grasping it. What was taking place in California was matched by what was going on in other parts of the country and notably in Ohio.

The feeling which we of my college generation have for our respective colleges and universities is deep gratitude and the desire to make such contribution as we can to the successful continuance of these great institutions. We have had in our country a golden age in education at the same time that we have had an upsurge in economic development and we do not want the educational facilities to be diminished in quantity or in quality. Unfortunately, we now see evidence of changes which threaten the continuance of the balance of educational opportunity with educational need.

I believe you will agree that the growth of our American system of education has supported and has been essential to the progress in our

agriculture, industry, and commerce, and our whole way of life which is our pride and the basis of present well-being. Without a sound and constantly developing educational system, we could not have had the improvements in methods, the occurrence and application of scientific discoveries, or the successful handling of the problems of organization for manufacturing and distributing goods and services, all of which taken together have resulted in the scale of our present-day performance. We cannot overstate the importance of the part which our system of higher education has played in making possible the present-day organization which provides the means of subsistence and the standard of living which is ours.

No Alternative to Maintenance and Development

There is no acceptable alternative to maintaining and developing further the educational system which is an indispensable part of this American organization for living. We must find ways and means of maintaining the flow of funds to our educational institutions so that they may live and grow, and we do not want to see this done by having funds first drawn into the Federal Treasury by taxation and then doled out to our colleges and universities by politically-selected officials, no matter how good they may be individually.

We may liken the problem which we must meet in maintaining our facilities for higher education to that which arises when action must be taken by a community to maintain and develop its water supply to meet the growing needs for domestic consumption, for irrigation, or for industrial uses. We tend to think of water as a free gift of nature as we do of air and light. But in all ages it has been necessary to make organized efforts to bring water from where it is available to the places where it is needed. The fact that I grew up in a semi-arid region, where we were always acutely conscious of the difficulties of bringing enough water to our homes, gardens, and farms to meet minimum needs, may make this illustration seem to me more vivid than it will to you who have lived in this highly-favored region with adequate rainfall and the water resources of the Great Lakes near at hand but, even in Cleveland, the problem of bringing water from where it is available to where it is needed is no small one, and throughout the country con-

tinuous enlargement and development of water-producing works has to go on all the time.

My home town of Santa Barbara was in early days supplied from individual home wells, then by groups of wells operated as a municipal water system, then a tunnel was run into the Santa Ynez Mountains. Soon a tunnel through those mountains and construction of the great Gibraltar Dam was necessary to store and divert through the mountain range to Santa Barbara the waters of the Santa Ynez River, and now there is in construction a \$17,000,000 project of another dam and a second diversion tunnel farther down the Santa Ynez River to take in additional watershed. All parts of our country have such illustrations and will have more as time passes and population increases. Whenever new projects are planned the rights of many parties must be considered and complications overcome to establish the water rights involved.

Our early law regarding water rights¹ was the common law of England. It had developed where water was plentiful and where, by the general law applicable to running streams, every riparian proprietor had the right to what may be called the ordinary use of water flowing past his land, for instance, to the reasonable use of the water for domestic purposes and for his cattle, and the further right to use it for any purpose, provided he did not thereby interfere with the rights of other proprietors, either above or below him. He had no right to intercept the regular flow of the stream, if he thereby interfered with the lawful use of the water by other proprietors, and inflicted on them a sensible injury.

So in England and in the well-watered parts of the United States, the doctrine was that those whose lands lay along a stream were entitled to rely upon the continued flow of the stream "as it was wont to flow, undiminished in quantity and unpolluted in quality".

The Doctrine of Beneficial Use

But in many parts of the United States this doctrine proved unsuitable and was replaced gradually by what has been called the "Arid Region Doctrine" or the "doctrine of beneficial use" whereby the waters of a stream become the property of the one who first appropriates and

¹(1926 Ed. *Encyc. Brit.—p. 385—Water Rights—quotes Lord Kingsdown speaking in 1858.)

uses them. Under this doctrine, it has been possible to make the large expenditures for construction of dams, for storage and for conduits for water distribution which are today a standard part of our national practice. The most beneficial use of the water is made possible but the flow of the streams is greatly changed and to be assured of an adequate supply of the life-giving water, it is necessary to have or acquire a water right giving access to water in the amount needed, even though that means going through or around or over mountains.

I think we may draw an analogy between the flow of a great watercourse and the flow of the income stream from which our colleges and universities have been supplied with funds during past years. Before the adoption and imposition of the Federal income tax, the income stream was much like the generously flowing stream for which the doctrine of riparian rights was appropriate, and income flowed to many along the stream who could and did turn over generous amounts to educational institutions.

Current Taxes Are Diversion Dams

But many changes have occurred. Among them may be noted, as particularly important for our discussion, the adoption of practices of taxation which, like diversion weirs in a stream, draw off income for public uses. At first there were low weirs and small diversion. As the tax has been increased, there has been a heightening of weirs or a raising of lofty dams comparable to those now found on the important watercourses of our western states, so that we have the impounding and drawing off of a major part of the income stream. The total volume of income flow has been greatly increased through our greater productivity but the part flowing down to the individual in a form which he can control for such purposes as contributions to educational institutions is restricted. So if our educational needs are to be met, and they are just as essential to our well-being as is the daily supply of water, the colleges and universities must find a way to participate in the stream of income flow at a point where the flow has not been reduced to a trickle by diversion works erected by the tax laws and other causes. How are they to do this?

Contributions of individuals have been the great reliance of our privately-endowed colleges. Probably, they will continue to be of much

importance. But we should note that, for an individual who derives income from corporation dividends, fifty-two per cent of the earnings in which he has an interest is first diverted to pay the normal corporation income tax, and a further amount up to thirty per cent may go for excess profits tax. The States also tap corporation income at varying rates such as 8 per cent in Oregon; 7 per cent in Georgia; 6 per cent in Minnesota, Mississippi and North Carolina; Wisconsin, North Dakota, and Kentucky have graduated taxes with 6 per cent maximum; the tax is 5½ per cent in New York; 5 per cent in Colorado; and so on through thirty-three States. In the circumstances thus created, it seems clear that it will be in the interest of the stockholder if a corporation in which he owns stock makes contributions to public causes in which the stockholder is interested. To the extent that educational institutions can obtain contributions in this way direct from corporations, they will in effect draw their life-giving funds from points above the great dams on the stream of income flow.

I am neither a tax lawyer nor a tax expert but I understand that under the Internal Revenue Code² a corporation may make charitable contributions up to 5 per cent of the corporate taxpayer's net income. In view of the existing rate of income taxes, I believe that every prosperous corporation should so appropriate this part of its income and that a high priority should be given to contributions to educational institutions.

The Corporation and Private Philanthropy

It is not many years since corporations felt obliged to stave off requests for action of this kind by saying, "We have no right to give away our stockholders' money." For national banks, this ban was removed by an act of Congress and for Ohio corporations, including banks, there was legislation of like wording and like purpose. Nowadays, corporations are making generous contributions to community funds, hospital funds and, in an increasing degree, to educational institutions. Bulletin #49 published by National Industrial Conference Board, Inc., from records of the Bureau of Internal Revenue showed that corporate contributions to private philanthropy increased from about \$27,000,000 in 1938 to over \$240,000,000 in 1947.

²Section 23Q.

I was thrilled a few days ago to read that the Wachovia Bank and Trust Company, Winston-Salem, North Carolina, had given \$100,000 to establish a chair of banking at the University of North Carolina. The president of the Wachovia Bank, Robert M. Hanes, is an outstanding banker and member of a family of practical people recognized for their success in industry and finance. I believe this action should be taken as evidence of an awareness on the part of these highly-skilled businessmen of the need for and the propriety of restoring the flow of funds to our colleges and universities.

I have been much interested to read the remarks of Irving S. Olds before the Alumni dinner celebrating the 250th anniversary of Yale University, at New Haven, on October 19, 1951. His remarks are so exactly in point and so thoroughly sound that I quote from them:

The Mutual Stake of Education and Corporations

"Now speaking as a corporation executive, although not officially as a representative of the company with which I am connected, I want to say emphatically that—in my opinion—every American business has a direct obligation to support the free, independent, privately-endowed colleges and universities of this country to the limit of its financial ability and legal authority. And unless it recognizes and meets this obligation, I do not believe it is properly protecting the long-range interests of its stockholders, its employees and its customers.

"Every well-managed corporation, of course, must preserve, improve and develop the major sources of its raw materials; but if it is necessary for us to spend millions of dollars to beneficiate the ore which goes into our blast furnaces and to process the coal which goes into our coke ovens—then why is it not equally our business to develop and improve the quality of the greatest natural resource of all—the human mind?

"To a limited extent, many corporations are doing that today. They support scientific research by qualified schools, in various specialized fields. They also make general donations to certain technical schools from which they hope to draw trained personnel; and they contribute extensively to educational projects in their plant communities where most of the bene-

fits of these expenditures will devolve directly upon their own employees.

"But their power to contribute is limited by the statutes of the particular state in which each of them is incorporated, and many state laws cast grave doubt upon the right of a corporation to donate the money of its stockholders unless the probability of immediate and direct benefit to the donor is clearly demonstrable. That is why they have not felt free generally to finance studies in the liberal arts and the humanities, even though the most difficult problems which American enterprise faces today are neither scientific nor technical, but lie chiefly in the realm of what is embraced in a liberal arts education. That such doubts should be resolved, either by judicial interpretation or by legislative amendment, is, I believe, an immediate and major responsibility of the managers and shareowners of every corporation which honestly desires to preserve free and independent education in America."

**Irving S. Olds, Alfred P. Sloan,
Beardsley Ruml, Theodore Geiger**

In an article in the December issue of Fortune magazine headed "Should business support the Colleges?", Mr. Olds' remarks are quoted as an affirmative answer to a similar comment made some months ago by Alfred P. Sloan, Chairman of the Board of General Motors. Reference is also made to a somewhat different approach in a pamphlet "The Five Per Cent", prepared by Beardsley Ruml and Theodore Geiger for the National Planning Association. As they see it, high taxes actually impose an obligation on corporations to make contributions to educational institutions.

As Mr. Olds said in his remarks, gifts should not be limited to scientific or technical institutions or to those departments of universities. We need the well-rounded educational programs of progressive and forward-looking institutions with differing emphasis as to field of study as we need men of varied equipment to round out the organization of our great corporations and of our great society. From my class of 1912 at the University of California, which we always claimed was "the greatest class that ever hit U.C.", have come such leaders as James Black, President, Pacific Gas & Electric Company; Harold C. Urey, discoverer of heavy water and Nobel prize winner, who spoke in

Cleveland before The City Club on Saturday; Horace Albright, for many years Superintendent of National Parks and an important aid to the late Stephen Tyng Mather (also a University of California man of an earlier class) in the development of the National Park System; Earl Warren, Governor of California, now a candidate for presidential nomination, and many, many others. They received varied training in the University and they are filling various posts in our complex business and professional life.

"A Great University Is the Mark of a Great City"

The values which a university gives to its community are incalculable but enormous. From Cleveland's Western Reserve University have come many benefits, associated with such names as those of Samuel Mather, Liberty E. Holden, John L. Severance, the Hanna family, the Payne-Bingham families, the Bolton-Blossom families, Andrew Squire, John Huntington, Francis F. Prentiss, Commodore Beaumont, and more recently, Mr. and Mrs. John Huntington Hord and Supreme Court Justice John H. Clarke.

I was particularly pleased when, at the time of his installation as President of Western Reserve University, President Millis emphasized that Western Reserve is an urban university and that it will live up to the obligations which that implies. Now in its 125th year, the University has, since its establishment, conferred 39,837 degrees. These graduates have provided a large segment of Cleveland's leadership, professional men and highly skilled workers throughout these years. Through its downtown center, Cleveland College is engaged in the continuing education of many of those same people, the alumni of other colleges and other adults. This same center has provided an opportunity to earn degrees by part-time study and education in specific areas of learning to 100,000 citizens of Cleveland in the past 25 years, the great majority of whom are employed in Cleveland industry. In addition, research and staff members through services of the School of Medicine, the School of Applied Social Sciences, the School of Dentistry, and School of Law, the Personnel Research Institute, the School of Business and the School of Nursing and other units of the University, are vital in the progress of this community and to the welfare of its citizens. It has been well said that "a great university is the mark of a great city".

Western Reserve, with its eleven Schools or Colleges, nearly 1,000 faculty members, and over 11,000 students, is a great university. No better use of money can be made than to support it in its activities. It will return great values for the funds entrusted to it. If we are to face the future with confidence, we must find a way to maintain the access of this and other comparable educational institutions to the national income stream. To do this, I believe we shall have to establish giving by corporations as a recognized and important means. Thus, we may enable the educational institutions to get their pipes into the major reservoirs of funds which are behind the great diversion dams along the stream of income. And, thus, we may assure the continuation of the essential contribution which we have had from these institutions to make possible the continuance of our economic progress and success.

In legal descriptions of the old California Ranchos with titles derived from the Spanish grant, boundaries were often described, with relation to watercourses, running or dry, as "thence following the meanderings of the stream to a point". The meanderings of my rather dry stream of discussion have been intended to lead to a point which may be stated as follows:

1. That the growth of our great educational system has made possible, and has been made possible by, the development of our system of corporate enterprise.
2. A major part of the flow of corporate income is being diverted from its course and will not continue to flow through the usual channels to educational institutions.
3. The continued welfare of colleges and universities calls for the direct flow of income from the corporations to the educational institutions in the amount permitted by law.
4. The continued welfare of the corporations themselves and of their stockholders will best be served if this is accomplished.

That is my belief. I hope that you will share it. Thank you.

An editorial in the CLEVELAND NEWS
December 12, 1951

Corporations Face Duty in Education

There is clear common sense in the counsel of two of Cleveland's leaders that corporations, born of private enterprise and now the keepers of that American tradition, must invest for high dividends in education.

Addressing trustees, workers in Western Reserve University's development campaign for \$6,000,000 in three years, President John S. Millis and Ray M. Gidney, President of the Federal Reserve Bank here, stated the imperative need for successful business to channel more of its funds into this country's university and college treasuries.

Mr. Gidney likened the need to a nation's need for water; successful cities have delivered water from outlying sources to freshen the community's enterprise. Dr. Millis asserted that a city can advance best if it weds the private enterprise of economy to the private enterprise of education, religion, human welfare and the arts.

Clevelanders who have a deep-rooted pride in this city's progress must recognize the responsibility it entails. WRU's advancements have been many—its new social science building, its improved medical facilities, its Clarke Field, its projected Rose Institute hospital and its experimentation with television classrooms (an estimated 54,000 are seeing and learning daily through these programs). And these have fixed WRU's place in what Dr. Millis calls "the constellation of University Circle".

The expression, "Great cities have great universities," might well be paraphrased to say, "Great corporations can keep great colleges," if they support and encourage the development of the greatest natural resource of all generations—the human mind.