

TAX-EXEMPT FOUNDATIONS

TUESDAY, NOVEMBER 18, 1952

HOUSE OF REPRESENTATIVES,
SELECT COMMITTEE TO INVESTIGATE TAX-EXEMPT
FOUNDATIONS AND COMPARABLE ORGANIZATIONS,
Washington, D. C.

The select committee met, pursuant to call, at 10:20 a. m., in room 1301, New House Office Building, Hon. Eugene E. Cox (chairman) presiding.

Present: Representatives Cox, Hays, Forand, Simpson of Pennsylvania, and Goodwin.

Also present: Harold M. Keele, general counsel to the committee. The CHAIRMAN. The committee will come to order.

This committee is operating under House Resolution 561, which among other things directs the committee to conduct a full and complete investigation and study of educational and philanthropic foundations and other comparable organizations which are exempt from Federal income taxation to determine which such foundations and organizations are using their resources for purposes other than the purposes for which they were established, and especially to determine which such foundations and organizations are using their resources for un-American and subversive activities or for purposes not in the interest or tradition of the United States.

Without objection the resolution will at this point be written into the record. Is that satisfactory, Mr. Keele?

Mr. KEELE. Yes, sir.

(H. Res. 561 is as follows:)

[H. Res. 561, 82d Cong., 2d sess.]

RESOLUTION

Resolved, That there is hereby created a select committee to be composed of seven Members of the House of Representatives to be appointed by the Speaker, one of whom he shall designate as chairman. Any vacancy occurring in the membership of the committee shall be filled in the same manner in which the original appointment was made.

The committee is authorized and directed to conduct a full and complete investigation and study of educational and philanthropic foundations and other comparable organizations which are exempt from Federal income taxation to determine which such foundations and organizations are using their resources for purposes other than the purposes for which they were established, and especially to determine which such foundations and organizations are using their resources for un-American and subversive activities or for purposes not in the interest or tradition of the United States.

The committee shall report to the House (or to the Clerk of the House if the House is not in session) on or before January 1, 1953, the results of its investigation and study, together with such recommendations as it deems advisable.

For the purpose of carrying out this resolution the committee, or any subcommittee thereof authorized by the committee to hold hearings, is authorized

to sit and act during the present Congress at such times and places and within the United States, its Territories, and possessions, whether the House is in session, has recessed, or has adjourned, to hold such hearings, and to require, by subpoena or otherwise, the attendance and testimony of such witnesses and the production of such books, records, correspondence, memoranda, papers, and documents, as it deems necessary. Subpenas may be issued under the signature of the chairman of the committee or any member of the committee designated by him, and may be served by any person designated by such chairman or member.

The CHAIRMAN. I should like to make it perfectly clear that the committee will strive to conduct the hearings in a fair and judicial manner, and if possible do nothing that will afford an excuse for the accusation that it is likely to become a smear or a whitewash.

This is not a fight as between the committee and the foundations nor is it intended to be a love feast, but rather it is a serious effort put forth on the part of the committee to develop the facts and to make a true answer to the charge laid down in the resolution under which it operates.

I think it proper to make clear at this point here at the beginning of the hearings that none of the foundations have thus far offered the slightest resistance to the investigation nor have any of them indicated an intent to offer such resistance, but, on the other hand, all have cooperated freely and to the fullest extent, so much so that up to the moment the committee has not found it necessary to use its subpoena powers either to get documents, records that it might want, or to bring witnesses here.

I should like to reiterate that which in effect has heretofore been stated, and that is that there is not a member of this committee who is hostile to the foundations or the idea of philanthropic giving. There is not one who wishes to injure the foundations or impair their proper functions.

As we have previously said, investigation does not imply hostility nor does study imply danger to the subject studied. Rather we seek to develop information which will be of value not only to the Congress and to the people of the United States, but to the foundations themselves.

This is the spirit in which the work of the committee has thus far been done, and it is in that spirit in which we will continue our labors.

All right, Mr. Keele.

Mr. KEELE. I would like to call Dr. Ernest V. Hollis, please. He is the first witness.

The CHAIRMAN. Mr. Keele, Mr. Hays will preside.

Mr. HAYS. I will ask our general counsel to proceed with the interrogation.

Mr. KEELE. Will you state your name, Dr. Hollis.

STATEMENT OF ERNEST V. HOLLIS, CHIEF OF COLLEGE ADMINISTRATION IN THE UNITED STATES OFFICE OF EDUCATION

Mr. HOLLIS. I am Ernest V. Hollis, Chief of College Administration, United States Office of Education.

Mr. KEELE. Dr. Hollis, what training have you had of a formal nature?

Mr. HOLLIS. I am a graduate of "a cow college" down in Mississippi, Mississippi State College, the Land Grant College, bachelor and mas-

ter's degrees in biological sciences. I have a master's degree in history and philosophy and a Ph.D. degree from Columbia University in the field of school and college administration.

Mr. KEELE. You have had some administrative and teaching experience, have you not, in colleges and universities in this country, Dr. Hollis?

Mr. HOLLIS. Yes.

Mr. KEELE. Will you tell us about that?

Mr. HOLLIS. I have taught in rural elementary schools, high school, and college. I have served as dean and as president of the Georgia State Teachers College. At one time or another I have been a professor at the University of Illinois, Duke University, Northwestern University, City College of New York, and Columbia University.

Mr. KEELE. You have, as I understand it, written on the subject of philanthropic giving or foundations and higher education, have you not?

Mr. HOLLIS. Yes. Back in 1938, I wrote a book called *Philanthropic Foundations and Higher Education*, and have, of course, since that time written a number of articles for encyclopedias, professional magazines and popular magazines on the problems and issues of foundations' philanthropic operations.

Mr. KEELE. You have also served, I believe, Dr. Hollis, as a consultant on problems of institutions, that is, educational institutions and organizations in the field of higher education, have you not?

Mr. HOLLIS. Yes. I have served as a consultant to individual colleges or groups of colleges I suppose in every State in the Union, or nearly so. If there is an exception, I can't think of one at the moment.

Mr. KEELE. Dr. Hollis, would you define for us or characterize a tax-exempt philanthropic or educational foundation, and by "tax-exempt," I mean exempt from Federal income taxation.

Mr. HOLLIS. There are two groups of them that you have to hold in mind. The first are those that are individually chartered either by a State or one of its subdivisions or by the Federal Government. Those are exempt from taxation under section 101 (6) of the Internal Revenue Code. Second, there are charitable trusts and are created under the general charitable trust statutes of the several States. These are exempt under section 162 (a) of the Internal Revenue Code. They are the greatest in number, the smallest in average size of principal fund, and the ones about which the least is known because they come into existence primarily by the testamentary act of an individual.

Mr. KEELE. And what are their characteristics otherwise, would you say, if any, Dr. Hollis?

Mr. HOLLIS. Well, of course, their chief characteristic is that they are a legal device for channeling private wealth to public beneficiaries, general undesignated beneficiaries, and they have a great many characteristics, depending on the perspective you are viewing them in.

For example, many of them are perpetuities. That means their principal funds cannot be spent. There are others that may spend their funds, and some that must spend their principal fund in a specified period of time.

There are other foundations we speak of as community trusts that represent kind of a holding company for a lot of small donors.

Mr. KEELE. That type is exemplified, is it not, by the so-called Cleveland Trust?

Mr. HOLLIS. I suppose the one that Col. Leonard P. Ayres started in Cleveland back in 1920 is the earliest of the community trust type of foundations.

Mr. KEELE. That is differentiated from the community funds or community chest, is it not?

Mr. HOLLIS. Oh, yes, not to be confused at all with community chest, which is philanthropic funds given on a current basis. There is no endowment.

Mr. KEELE. Dr. Hollis, would you trace briefly for us the origin, the evolution of the philanthropic fund or foundation in other countries?

Mr. HOLLIS. Yes.

Mr. KEELE. That is other than in the United States, I mean.

Mr. HOLLIS. Before I do that, I would like to add a word on this current cross-section picture, because it is so involved and confused.

Many people ask me how many foundations are there, and what are their total assets. Unfortunately, our social statistics in that area are so meager that no one can give a definite answer.

From the probings I have made, if you include both the separately chartered and the charitable trust statute types of foundations, there must be between 30,000 and 35,000 foundations in this country, and they probably have total capital assets of 6½ to 7 billion dollars.

Now I don't know whether \$7 billion impresses you as a small sum or a large sum. Compared to the Federal budget, even as it may be passed this year, it possibly isn't 10 percent of it, but compared to my money it is an enormous sum. Through the impact of these funds foundations have a tremendous influence on the cultural life of the Nation. In my judgment, possibly next to the church, the school and instrumentalities of government, philanthropic foundations, along with press, radio, and television, are among the very most influential social forces of the Nation. Now, Mr. Keele, I am ready to move on to your other question.

Mr. KEELE. Just hold up one second.

Mr. HAYS. Dr. Hollis, pardon me just a minute. Mr. Cox has just called my attention to the fact, and has directed the committee's attention to the fact, that some of the reporters may not have comfortable seats. We are a bit crowded.

The chairman is setting aside the first four seats on both sides for the press, and they will be free to occupy these seats.

Mr. KEELE. I think I asked you, Dr. Hollis, to trace for us something of the origin and development of foundations.

Mr. HOLLIS. Yes. Well, again before doing that, I am reminded that the Commissioner of Education asked me to state for the record that I am testifying as an individual and as a student of foundations, and not in my official capacity, and that therefore my statements do not necessarily reflect the views of the Office of Education or the Federal Security Agency. If it is agreeable, Mr. Chairman, I would like the Commissioner's letter to be included in the record.

Mr. HAYS. Without objection, it is so ordered.

(The letter above referred to is as follows:)

FEDERAL SECURITY AGENCY,
OFFICE OF EDUCATION,
Washington, D. C., November 18, 1952.

Mr. HAROLD M. KEELE,
*Chief Counsel, House Select Committee To Investigate Tax-Exempt
Foundations, House of Representatives, Washington 25, D. C.*

DEAR MR. KEELE: The House Select Committee to Investigate Tax-Exempt Foundations has called upon Dr. Earnest V. Hollis, Chief of College Administration, Division of Higher Education, United States Office of Education, to testify as a technical expert concerning tax-exempt foundations.

As a recognized authority on the history of tax-exempt foundations, Dr. Hollis is well qualified to give expert testimony in this field. In offering such testimony, however, it should be understood that Dr. Hollis is serving as a technical expert on technical matters. To the extent that Dr. Hollis is called upon to express opinions concerning issues of public policy, it should be understood that any opinions so expressed are personal with Dr. Hollis and do not necessarily represent the views of the United States Office of Education nor the Federal Security Agency. It follows that Dr. Hollis is not authorized to commit the United States Office of Education nor the Federal Security Agency on any question of public policy in this matter.

Sincerely yours,

(Signed) EARL J. McGRATH,
United States Commissioner of Education.

Mr. KEELE. We understand that you are called here not as an official of the Government, but rather as one who is qualified by his experience and study to testify as an expert on this subject, and that is the purpose for which you were brought here, and I think that should be made abundantly clear.

Now we will get back to that question.

Mr. HOLLIS. Well, being somewhat historically minded, when I began studying foundations 15 or 20 years ago, I got very much interested in seeing where their real roots and origins were in our early civilizations. I found that foundations are nearly as old as the institution of private property. They started in the early Egyptian and Chaldean civilizations and at first only the king had authority to alienate private property from natural heirs to general welfare purposes.

And, of course, since most of our legal history comes through Roman law channels, I was interested to note that about 150 B. C. Roman law was modified so that the legal heir concept was further substantiated. A legal heir in 150 B. C. was declared by Roman law to be a "sentient reasonable being" who at the same time was an "immutable undying person." Now that is how far back you have to go to find the legal roots of a foundation really defined.

In this period foundations were palliative organizations. They were made up primarily of what in Roman times were called "alimentari," in other words, foundations providing funds to feed the poor, maintain funeral associations, and ransom captives. They had very few of the purposes that go with the constructive and preventive activities of modern foundations.

It is interesting to note that the first investigation of foundations dates back to 65 B. C. At that time foundations in the Roman Empire had become financially strong enough and politically powerful enough to be accused of having joined in Catiline's conspiracy, and because of that Cicero persuaded the Senate to dissolve foundations as contrary to public policy.

Mr. KEELE. We are not then in an unchartered field?

Mr. HOLLIS. No, sir. These were "bad," by Cicero's definition, foundations, you understand, that were dissolved; that is, they were not in the public interest, as Catiline's opposition interpreted it. Of course, "good" foundations, by Cicero's definition, were rechartered. These bads and goods are in quotes; I take it you can see that my tongue is in my cheek.

The new crop of foundations had come to a fairly fruitful stage by the time of Constantine, 325 A. D. He, as you recall, was the first Christian emperor.

Constantine turned over to the Christian Church exclusive responsibility for being almoner for the Roman Empire, and it is from his act that the medieval church came to be the dominant body in the matter of maintaining and operating philanthropic foundations.

Of course, the foundations again got out of hand legally, and when we come to the period of Justinian, 550 A. D.—those of you who are lawyers will remember the revision of the civil code under Justinian—at that time the legal concepts of foundations were resharpened and refocused almost into the stage and shape that they now have in our own history.

I should like to move quickly into the English experience with foundations. In Britain during the medieval period the ecclesiastical foundations had come to own somewhere between a third and a half of the wealth of Great Britain. They occupied most of the positions as masters in chancery and had what King Henry II, who ruled from 1154 to 1189 A. D., considered a strangle hold on the economy of Great Britain. Accordingly, he entered a declaration that the bishops and the abbots and other church officials held their funds by the good will of the king and that they were responsible to the king's justice for their administration. That was a new principle because up to this time these foundations had been largely governed by canon law.

The next 200 years, between Henry II and Henry VIII, was a royal battle over the dissolution of the foundations, and as you know, Henry VIII confiscated the wealth of all the foundations in Great Britain for the use of the Crown. But the charitable, the philanthropic nature of man, his regard for the welfare of his fellow human beings, led him in Elizabeth's reign to establish what has become the Magna Carta of modern philanthropic foundations. I refer to the Statute of Charitable Uses, Act 43 Elizabeth, if you are interested in seeing it. That act has two principles in it that those of you who read Blackstone will remember, established once and for all the principle that foundations are touched with the public interest and that the public has the right to know about them.

Those two principles were *fundatio incipiens*, as indicating that the state is the incorporator and the supervisor of all philanthropic bodies, and the second term was *fundatio perficiens*, to indicate that the donor shared in this act through providing the funds to implement the legal document.

And those principles still hold in American law because our charitable trust statutes are based largely upon the charitable trust statute or Elizabeth 43. That, in brief, is the early history.

I would like, if you think I am not pushing the history too far, Mr. Keele, to recite a thumbnail sketch from Elizabeth's time up to fairly recent periods.

Mr. KEELE. I am familiar with what you have in mind and I think it is of value.

Mr. HOLLIS. Elizabeth's 43 not only provided a legal instrument chartering foundations but it set up machinery for supervising them and for keeping their social utility intact. Many of them had suffered from what is known as the mortmain, or dead-hand principle, and had lost their social usefulness. By 1700 the special commissions authorized by Elizabeth 43 had investigated 1,000 foundations, restored them to social usefulness, and kept them on the track of public interest.

That machinery continued in existence for a little more than a hundred years; 1837 is the next significant date in British history so far as philanthropic foundations are concerned. At that time a royal commission was set up to make a complete restudy of philanthropic foundations and their bearing on British life.

Mr. HAYS. What was that date, Dr. Hollis?

Mr. HOLLIS. 1837. That commission came out with a great many constructive recommendations, and those recommendations were debated in the Parliament over a very considerable period, and in 1853—it was Acts 16 and 17 of Victoria—charitable trust statutes were established that set up the machinery for formally defining, regulating, and conducting foundations so far as the public interest was concerned. The regulatory body then established was not unlike our Federal Trade Commissions or our Federal Communications Commissions.

That body has since supervised foundations in the public interest in Great Britain.

There have been a number of amendments to Victoria 16 and 17. As a matter of fact, right now Lord Nathan has been asked by the British Government to make a new study of foundations to see what further modification needs to be made in their present regulatory arrangements. His report is just about due to be made now. I haven't seen a copy of it yet, but I know something of the types of things that it was dealing with.

Apparently in order to get the 1854 laws enacted, the Parliament had to make a great many exemptions from its provisions. For instance, the foundations of Oxford and Cambridge were exempted from supervision of this commission. The large ecclesiastical foundations and certain of the contributory funds, such as what we would call our March of Dimes type of programs, were exempted.

In fact, there were so many exemptions that as you read the law you wonder what it was that was left to be regulated or to be supervised. But at any rate, part of the present report of Lord Nathan is an attempt to tighten up and to make more inclusive the machinery that has been in operation in Great Britain for a full hundred years.

Mr. KEELE. Dr. Hollis, how many trusts or charitable foundations were examined by that commission sitting back in 1837?

Mr. HOLLIS. There were nearly 29,000 examined by the 1837 Royal Commission.

Mr. KEELE. That commission sat some 17 years in its work, didn't it?

Mr. HOLLIS. Yes; some 17 years. It had a very considerable staff, but because of the type of obscurities I have indicated, getting the basic facts proved to be a very difficult undertaking even under these circumstances which are much more favorable than those of your committee.

Mr. KEELE. Dr. Hollis, I should think that that probably in capsular form brings us up to the period of the American foundations or those foundations which are fostered in this country; is that correct?

Mr. HOLLIS. Yes. On this early history, Mr. Chairman, may I have the privilege of inserting into the record a more concise and a more meaty statement than it was possible for me to make offhand? It is a brief statement.

Mr. HAYS. Without objection, it is so ordered.

(The document above referred to is as follows:)

[From the Educational Record for October 1939—The American Council of Education, Washington, D. C.]

EVOLUTION OF THE PHILANTHROPIC FOUNDATION

(By Ernest Victor Hollis)

The philanthropic foundation as we know it did not spring full grown from any one civilization. It gradually emerged in response to social necessity and, like most legal instruments, has since been refined in the crucible of each succeeding culture. The foundation did not appear in primitive societies because it would have served no useful purpose. The welfare of the god, the tribe, the family, the individual were communal undertakings. Private property existed only in very personal items; there was none to implement a foundation.

For religious purposes the heads of government initiated the practice of leaving wealth in perpetuity to other than natural heirs. Fourteen hundred years before the Christian era the Pharaohs of Egypt were thus setting aside funds in perpetuity. Inscriptions show contracts wherein the Pharaoh is the donor of specified kinds and amounts of wealth to a college of priests who, for a designated portion of the income, obligated their order to use the remainder to keep the tomb perpetually protected and the religious ceremonies observed. Since there would be no legal machinery to assure the performance of this duty if the dynasty were to change, contracts usually created a second foundation, the income from which went to persons charged with seeing that the priests fulfilled their obligations. The indenture also called down the most terrible maledictions of the gods upon the heads of any unfaithful trustee. The Chaldean civilization had almost identical practices as is shown by a clay tablet, dated 1280 B. C. reciting how King Marouttach bought certain lands from his vassals, built a temple on it, dedicated the whole to the god Marduk, and endowed a college of priests to operate it. These are the earliest known efforts at projecting private will beyond life for general purposes; they constitute the most rudimentary form of the foundation.

A different cultural and governmental pattern in Greece and Rome modified the purpose and the manner of establishing and supervising the perpetuities that we now call philanthropic foundations. As late as the time of Solon and the Law of the Twelve Tables the right of making a will and testament did not exist, nor could a living owner of property alienate it from his heirs. It took 500 years for the ingenuity of these creative peoples to invent a living legal heir as a substitute for a natural heir and then he could receive wealth only from living donors with the consent of natural heirs, if any. It required almost another half millenium to extend to this "unnatural heir" the right to receive bequests and to translate the concept of a "living legal heir" into the abstraction of "an immutably legal person"—that is, to recognize a foundation or corporation as a person before the law.

The first modification permitted a living donor to create a perpetuity for other than his natural heirs, provided those heirs signified their approval of the indenture by signing it. Foundations so established faced many hazards and often had a tenuous and short-lived existence; the courts were lax in enforcing penalties for discovered malfeasance or misfeasance, beneficiaries had no rights in court, and when a faithful and efficient steward died the court might replace him with a less competent one. The uncertainty of actual perpetuity was so great that often a philanthropic donor preferred to use a bequest to natural heirs, pledging them to carry out his benevolent intentions. Thus Plato in 347 B. C. left to his nephew the academy and a productive endowment of land, stipulating that it be administered for the benefit of his followers; the nephew, using the living legal heir concept, left the foundation to Xenocrates for the benefit of the cult. Following the newer concept, Epicurus gave his

gardens to 10 disciples to be administered by them and their successors as a retreat for Epicurean scholars. In time this legal concept was interpreted to apply to the members of a varied list of charitable associations, such as festival groups, colleges of priests or augurs, funeral associations, and the like. As living persons (not as corporations) they were permitted to receive gifts in perpetuity from the living but not through bequest.

About 150 B. C. Roman law modified the legal-heir concept to declare associations were at one and the same time "sentient reasonable beings" and "immutable undying persons." This interpretation gave foundations immutability plus all the advantages of natural heirs save the right to receive bequests. With an improved legal status, foundations increased in number and kind. By 65 B. C. the associations had become a financial and political power; because so many of them aided Catiline's conspiracy Cicero persuaded the Senate to dissolve them as contrary to public policy. Following this first known clash between the state and foundations a general act of the Senate permitted the formation and reorganization of "loyal associations." In Augustus Caesar's reign establishment was restricted to specific authorization, except for the very minor funeral associations.

During the reign of the five good emperors, 96-180 A. D., foundations were greatly encouraged throughout the Roman Empire. Nerva gave the cities the right to accept foundation funds by bequest, Trajan extended the privilege to the towns, Hadrian included the villages, and Marcus Aurelius permitted the associations (private groups) to receive bequests. In this period, the objectives of foundations began to shift from honoring the gods and the dead, preserving the cult, and perpetuating a feast day to at least a palliative ministering to the needs of underprivileged groups. Nerva, Trajan, Hadrian, Antoninus Pius, and Marcus Aurelius gave generously of their private wealth for establishing in the municipalities foundations for alimentarii, that is, foundations to aid in the feeding, clothing, and educating needy legitimate children.

We know that among many others influenced to follow the example of the emperors Pliny the Younger established an alimentarius in his native city of Como and in one other town. Another was Herodes Atticus, a citizen of Athens and the Rockefeller of his day, who lived during the reign of the Antonines. He built a water-supply system for Troas, endowed a giant stadium at Athens, and restored to its ancient magnificence the theater of Pericles; he provided a temple to Neptune and a theater at Corinth, a stadium at Delphi, endowed a bath at Thermopylae, and a system of aqueducts at Canusium in Italy. Inscriptions indicate that the people of Epirus, Thessaly, Euboea, Boeotia, and other cities of Greece and Asia Minor gratefully styled Herodes Atticus their benefactor.

In their struggle to rule, the 30 "barracks emperors" of Rome between 192 and 324 A. D. "borrowed" the foundation funds that had been entrusted to the municipal treasuries. This confiscation caused Constantine to recognize the obligation and the necessity for the state to assist causes formerly aided by these foundations. By edict he reiterated the legal rights of the Christian Church (an association in Roman law), pointing out that its property and revenues could not be alienated by anyone nor used within the church for purposes other than that designated by the donor. Thereafter Constantine used church instead of state machinery for distributing public funds to the underprivileged. Both state and church officials encouraged philanthropically inclined individuals to give to the poor, aged, orphans, sick, and the other underprivileged persons only through the church.

In time the ecclesiastical foundations became the chief almoners in the Roman Empire and wherever else Christianity was dominant. Through its powerful hold on the dying hours of the faithful the church was able to amass enormous wealth for the exercise of the monopoly on charity given it by the state. By A. D. 453 certain bishops and abbots had so yielded to the temptation to divert to other church purposes the inalienable perpetuities for the underprivileged that the emperor Valentinian cited again the principles of Constantine and issued a "cease and desist" order against such practices. During the next hundred years, under the watchful eye of the state, the church more or less faithfully discharged as a lawful obligation the duties of almoner which it had assumed as a moral obligation in the time of Constantine.

Around A. D. 550 the legal basis of the ecclesiastical foundation was revised in Tribonian's restatement of Roman law that we know as Justinian's Corpus Juris Civilis. The Code, the Digests, and especially the Novels (statutes of Justinian) brought the laws of Piae Causae into reasonable conformity with the social conditions of the age. While socially an administrative agent to give the

wealth of the few to the needs of the many, legally the ecclesiastical foundation was still an association (like an apostolic church) where donors, administrators, and recipients were one and the same body of persons. The local church had also overstepped its legal bounds by having more than one such association; patriarchs, bishops, abbots each controlled one or more foundations for pious causes, and lesser churchmen managed foundations for orphanages, schools, hospitals, ransoming captives, and the like. The laws specifying the obligations and privileges of those who managed such endowments were contradictory and inadequate for safeguarding the funds from avarice and stupidity.

To bring a semblance of legal order was a formidable undertaking for Tribonian and his associates. The nearest they came to resolving the fundamental problem of the nature of an ecclesiastical foundation was to declare in a statute of Justinian that "the founder of an ecclesiastical establishment creates a legal person of an ecclesiastical nature whose personality derives from that of the church but which possesses a legal capacity of its own." In other words, the foundation was now legally independent of the recipients and was the actual responsibility of the administrators chosen by the donor. The personality of the foundation was at spiritual oneness with the church just as the Trinity of the Godhead was really one. Otherwise the ecclesiastical foundations could not have been considered organic parts of the church universal. The declaration lessened somewhat the control of the church hierarchy over foundations and increased the necessity for secular statutory regulation.

The more important of Justinian's comprehensive list of laws to safeguard foundation funds and keep them socially useful provided for the selection of a similar cause when the original had lost its social utility; and also provided that the endowment revert to the donor or his heirs if his will was not made effective in 1 to 3 years, depending on the nature of the perpetuity. In a national emergency the emperor could alienate to the government any perpetual fund of church or secular foundation. The church could not permanently alienate property given it and only the bishop or abbot could exchange it for other property; for buying foundation property otherwise, one was fined and the property and the payment reverted to the church. Managers of endowment property could put it on long-time lease but the lease became inoperative if the rent was 2 years in arrears. Such property could be pledged to raise money to ransom Christians from the Saracens or to pay debts; the creditor could not foreclose but could hold the property only until the revenue repaid the loan. Foundation funds could not be loaned to heretics or infidels. The state gave charitable funds investment preference and protection similar to that which we accord funds held in trust for minors.

The Emperor gave the bishop or abbot the right to designate the actual manager of a charitable endowment. A manager could not make a "gift" in return for his appointment (a common practice of the day) but he might give the foundation the equivalent of a year's salary. Managers were authorized by the Emperor to act as guardians or to appoint and supervise guardians for all legally incompetent persons under their care, such as orphans and the insane. These powerful prerogatives were exercised by the church to its financial advantage throughout the medieval age; as masters in chancery in the England of Henry VIII and Queen Elizabeth these churchmen were still exercising a dominant control over property and person.

The Saxon kings in England, following the Roman practice, recognized the ecclesiastical foundation as a spiritual trust and therefore chiefly the concern of the bishop, abbot, or similar church official. After 1066 the Norman kings rejected this idea and declared the foundation a temporal trust subject to secular supervision under the usual laws of chancery. In challenging the dominance of the church in temporal affairs a decree of Henry II (reigned 1154-1189) declared: "The bishops and abbots shall hold their possessions of the King and answer for the same to the King's justice." From this time on the common law of England recognized the Crown as guardian of the revenues of vacant bishoprics and the patron of all charitable funds and hence their legal founder. These declarations were the first skirmishes in a 400-year struggle of the state to control foundation wealth estimated at one-third to one-half that of all England. On the surface the Kings opposed the princes of the church for alleged abuses of obligations to both donors and recipients; in essence, however, it was a battle for the economic and political control of the nation.

The economic power of the church was lessened by Henry's successors and was finally broken by the acts of Henry VIII and Edward VI in dissolving most of the ecclesiastical foundations and confiscating their wealth to the Crown.

In theory this wealth was rededicated to the causes it had been serving but actually it created many of the landed estates of England and diverted the revenue from the poor to the aristocratic friends of the King. This paper has space for only one instance. In 1947 John Kempe, an Archbishop of Canterbury, at the end of his career founded and endowed a school in his native town, Wye. Less than a century later Henry VIII confiscated it to the Crown and gave the whole to Walter Bucler, who had been secretary to one of Henry's wives. The royal grant kept up the fiction that the charitable purpose of the foundation was to be continued by stipulating that Bucler should at all times provide a schoolmaster to teach without fee and that Bucler must pay him from the revenues of the foundation an annual salary of £13 6s. 8d. Bucler did nothing of the kind and in the reign of James I the Crown resumed the property and regranted it to Robert Maxwell, a Scotch gentleman, increasing to £16 the salary of the mythical school teacher. The property then passed through the hands of a number of individuals who ignored any philanthropic obligation and at last to the possession of Sir George Wheler, who in 1724 gave it back to educational purposes.

The English Kings did not follow the example of Constantine and cause the state to assume some responsibility for supporting the charitable and educational causes that had been deprived of philanthropic revenue. For the Tudors the state did not exist for the benefit of its subjects. With the changed economic situation of Elizabeth's reign the condition of the poor became so intolerable as to appeal powerfully to the humanitarian qualities of the rising middle class. Interest in the welfare of the recipient became more important than the effects of a gift on the soul of the donor. A new philanthropic motive had become dominant.

The Statute of Charitable Uses (43 Elizabeth) may conservatively be called the Magna Charta of English and American philanthropic foundations. It recognized the social conditions prevailing and gave legal sanction and royal encouragement to the efforts of private wealth to alleviate the distress. The act was intended to safeguard gifts and bequests to foundations sanctioned by the Crown. The variety of social services Elizabeth left to private philanthropy is enumerated in the statute:

"For the relief of aged, impotent, and poor people, for the maintenance of sick and maimed soldiers and mariners; for schools of learning, free schools, and scholars in universities; for the repair of bridges, ports, havens, causeways, seabanks, and highways; for or towards relief, education and preferment of orphans, for the marriages of poor maids; for houses of correction; to aid young tradesmen and handicraftsmen; for the relief or redemption of prisoners or captives, and for the aid of the poor in paying taxes."

Gradually English-speaking states have underwritten the palliative work of these early philanthropies, and private wealth has been freed to undertake the preventive and constructive programs usual in the modern foundation.

Act 43 Elizabeth provided a legal procedure for establishing a foundation without the special permission of the Crown if the income was less than £200 per year. The act made it easy to get the special permission for the Crown for larger foundations. It formally established the principle that founding is a joint public and private enterprise. It used the term *fundatio incipiens* to indicate that the state is the legal initiator and guardian of all foundation activities; *fundatio perficiens* to describe the act of the individual in giving wealth to implement the legal incorporation. The statute provided for the appointment of special commissions to investigate any alleged abuse in the use of a perpetuity or its revenue. During the first year of the act 45 such investigating committees were appointed by the courts; before 1700 more than a thousand such investigations had been made.

Aside from royal grants sixteenth and seventeenth century England had few large endowments from one person. The outstanding exception is Guy's Hospital, established in London in 1724 by the bequest of Sir Thomas Guy who had made his fortune speculating in South Sea stock. This and his insistence that the foundation carry his name raised for the first time the "tainted" money and egoism issues in modern philanthropy, issues that are still alive but waning among the critics of American foundations.

Because of the greater age and number of her philanthropic perpetuities, England, more than America, has squarely faced the necessity for Government supervision to assure the continued social utility of these trusts. In 1837 the Royal Commission of Inquiry reported 28,840 foundations in existence, many of them devoted in perpetuity to causes no longer in existence. For example, there was a foundation to support a lectureship on coal gas as the cause of

malaria fever and one to ransom Englishmen captured by Barbary pirates. Only in extreme cases was the legal doctrine of *cy pres* (as near as) invoked by the courts to bring back to social usefulness a will or trust agreement that a changing society had outmoded. The courts made such a timid use of *cy pres* to remove mortmain or deadhand control from foundation funds that, after 14 years of investigation by a special commission, a series of parliamentary enactments gave larger and more immediate discretion to a regulatory commission.

"Who have the duty of superintendence and control of all property devoted to charitable uses, with an accounting and power to summon all parties concerned in management, to appoint and remove trusts, and to take care that no sale, mortgage, or exchange of charity property be effected without concurrence, and that all funds applicable be invested upon real or Government security; to preserve all documents, give acquittance of all payments where no competent party can be found, to audit accounts, to sanction salaries paid, retirement allowances, and to authorize such other arrangements as shall appear calculated to promote the object of the founder."

Thus England established a vigorous legal substitute for the expensive, circuitous, cumbersome *cy pres* device and in the same acts provided the legal machinery to establish and enforce standards for judging the efficiency of philanthropic agencies in attaining the high purposes of the founders.

In social as well as legal design early American foundations followed the English pattern, were palliative rather than preventive in outlook, and were devoted to causes that soon lost their social utility. The doctrine of *cy pres* has been reluctantly and timidly invoked by American courts to remedy the most fantastic and unreasonable of such indentures, but we still have hundreds of charitable trusts that serve nonexistent or perfunctory purposes and that might be made to render greater service if we had some such public supervision as is given in England by the Royal Commission.

Mr. KEELE. The pamphlet to which Dr. Hollis refers is a monograph of the history of the foundations. That is correct, is it not?

Mr. HOLLIS. That is right.

Mr. KEELE. And the legal mutations through which they have gone. It would be very helpful, I think, if it were included in the record as it has been.

All right. Shall we move on to the American scene, please.

Mr. HOLLIS. Of course, with the history I have told you, you readily understand that we had charitable bequests in this country from the very beginning of our Colonial period. After all, the gifts and bequests that constitute the endowment of our colleges, are foundations—a college endowment is nothing more than one type of a foundation because it is funds set aside in perpetuity for the public good, and are tax-exempt.

Possibly the most notable of the early charitable trusts is that of Benjamin Franklin. By bequests in 1790 he set aside a thousand pounds sterling for the establishment of a charitable trust in Boston, and a similar sum in Philadelphia, for the education of "young married artificers." He was very much interested, as you know, in the working man.

Those two foundations are still in existence, the one in Boston by the *cy pres* doctrine of "as near as" has been reinterpreted and brought back to social usefulness as the Franklin Union. In Philadelphia the trust is now called the Franklin Institute. Those of you who know either of them know they are doing very useful research work.

Another of the early foundations in this country was the Magdalen Society established in 1800 to aid, as it said, "fallen women," but one had to acknowledge prostitution to be entitled to any of the benefits, and it didn't become very helpful until it had the benefit of *cy pres* reinterpretation. It still operates as the White-Williams Foundation.

Girard College in Philadelphia, which is an orphanage established

in 1831, is another one of the early foundations. The Smithsonian Institution here in Washington established in 1846 by an Englishman, James Smithson, is, as you know, now semifoundation-semigovernmental. It is the first American foundation that was broadly enough conceived in its functions, not to have suffered from the mortmain or deadhand restrictions of the founder. It still operates very effectively under its initial charter.

The Peabody fund is another of the early American foundations. It was established in 1867 and devoted exclusively to educational purposes, teacher education and public education largely.

In this period we have the Havens relief fund established in 1870, the Salter fund for Negroes, 1872, the Baron Hirsch fund, primarily for Jews, established in 1890, and the first of the Carnegie foundations. There are 22 of them, in case you are interested. The first of 22 Carnegie foundations was established in 1896 as the Carnegie Institute of Pittsburgh.

That gives a pretty fair idea of the evolution of foundations in our country. It high lights the fact that until capitalism matures enough to produce surplus wealth—we will have to put “surplus” in quotations—to justify a donor or donors in alienating it from their natural heirs, that you don’t have many foundations. That is why we had so few in the nineteenth century.

But as we came into the present century, our capitalistic system advanced very rapidly and has produced wealth for many individuals beyond the needs of their families and their heirs. It is this wealth that has been very rapidly turned into the foundation channel during the first 50 years of the twentieth century.

That is about as much of the history as seems to me significant, except to remind you that we had a brief investigation of foundations in 1912 by Senator Frank Walsh’s committee in connection with its investigation of labor-industry relations of that period. This inquiry is the only notice the Congress has taken of the operations of foundations until it authorized your committee.

Mr. KEELE. Dr. Hollis, I think you have touched on the question of the number of tax-exempt philanthropic foundations in this country. Could you give us a further analysis of this estimate?

Mr. HOLLIS. The number depends on the definition you use for a foundation. You will get as many answers as anybody that says how many, make him tell you by what definition he is operating.

You will remember my definition initially was any body that is legally chartered or that is created through a charitable trust statute, the purpose of which is to channel private wealth into general welfare channels. That is the broadest possible definition. It is one that I think is the only legally sound one. By this definition the endowment of every college in this country is a foundation. The endowment of every hospital, scientific society, or any other charitable body that has a principal fund that is itself used or the interest from which is used is by that definition a foundation.

It was on the basis of such a definition that I said earlier that between thirty and thirty-five thousand foundations in this country is, in my judgment, a conservative estimate, and that the capital assets of these groups will run between 6½ and 7 billion dollars.

I have always been interested in trying to find out from the sample that we know about what part of this 6½ to 7 billion dollars is really

held in perpetuity and what part of it is in partial perpetuity or capable of being spent. But I have never been able to find a satisfactory answer because we haven't been able to get enough of the evidence before us. I hope your investigations will produce some of the needed information.

If one used a much narrower definition there would be fewer foundations. If only chartered foundations were considered perhaps the number would be nearer 5,000. If only the type of body that makes grants of money to somebody else to do work with, the number also drops very rapidly because a great many foundations are their own operating agents.

The American Foundation for the Blind, for example, is its own operating agent.

The Twentieth Century Fund is its own operating agent. There are a good number of foundations that are partly operating agencies and partly grant-giving agencies. So your definition will determine the answer to how many.

Mr. KEELE. You have illustrated the type of operating agencies. Will you illustrate the names of better known foundations which operate either by making gifts or grants or by a mixture of making gifts and grants and conducting certain operations themselves?

Mr. HOLLIS. Well, you can find all types within the 22 Carnegie foundations. The Carnegie Corp., for example, which is the parent corporation, does not engage in any research activities on its own, but many of the subsidiary foundations of the Carnegie group do engage in such activities.

The Carnegie Institution of Washington, for example, is a research agency in its own right. Many of them as the Carnegie Foundation for the Advancement of Teaching, was both a fund granting and a fund using agency. The Ford Foundation so far in its operations has been exclusively a fund-granting body.

In addition to all of this group of foundations, we have a lot of bodies in this country that I call the middlemen between foundations and the ultimate consumer of the foundation fund. You have in this city such bodies as the American Council on Education, the National Research Council, the American Council of Learned Societies, the Social Research Council, just to name a few. All of those bodies are middlemen or intermediaries between foundations and the ultimate consumer of grants. They sometimes use the grants themselves and actively sponsor and conduct the research, and in some instances they are merely the agents to handle particular grants for research individuals named that work under their supervision.

Mr. KEELE. Would you explain that a little further as to those agencies that you have spoken of?

Mr. HOLLIS. They came into existence primarily, Mr. Keele, because many of the foundations felt that they did not have the staff or the professional know-how to pass on the multiple requests for grants in, say, natural science fields or social-science fields, and these intermediate bodies, largely made up of educators and research people in the several fields, became a screening device for the foundations. This gave some assurance to the trustees and administrative officers of foundations that the projects were educationally sound and that the foundation was not pouring its money down a rat hole or not getting off into a subversive venture.

Most foundations have taken the attitude, as you know, that their funds are cultural venture capital, and that they should take risks beyond that that could be taken by a university with its endowment funds or that could be taken by government with the taxpayers' money. While foundations will venture more on an idea that might pan out than is customary even they have usually wanted to have the backing of professionals in the field, whether it is law, medicine, dentistry, or whatever the area.

Mr. KEELE. Explain, if you will, Dr. Hollis, the make-up of one of those operating groups or agencies. Let's take the American Council of Learned Societies. You are familiar with that, I am sure. How is that body made up?

Mr. HOLLIS. It is made up of a group of professional societies, the American Historical Society, the American Philological Society, the Modern Language Association, and the associations having to do with the humanities. These bodies represent the professional people who usually do the actual research with foundation funds.

Mr. KEELE. Now, then, a grant is sometimes made to, let us say, the American Council of Learned Societies, and then it in turn, as I understand it, grants or apportions or allocates that money to certain projects or agencies, is that correct?

Mr. HOLLIS. No, ordinarily it works a little differently.

Mr. KEELE. Will you explain that for us?

Mr. HOLLIS. We will say that the American Historical Association wants to undertake a study in the field of American citizenship. It submits its proposal to the American Council of Learned Societies. If the Council endorses the proposal, it then becomes the agent for the American Historical Association in seeking a foundation grant for the project.

There have been instances, of course, where a lump sum was granted to a council which in turn allocated it in the fashion you have indicated, Mr. Keele, but that is the exception rather than the rule.

Mr. KEELE. I was thinking that I saw the other day a grant from the Ford Foundation of a half-million dollars, I believe, to the American Council of Learned Societies. I may be in error.

Mr. HOLLIS. The chances are very large that the half-million allocation from the Ford Foundation to the American Council of Learned Societies is an earmarked fund. In other words, much of it is indicated for this type of research to be done by so-and-so.

Mr. KEELE. In other words, it has conditions attached to the grant, and they know in advance into what channels that money is going.

Mr. HOLLIS. Yes. This conditioning of grants is one of the doctrines or principles of foundation policy that has been blessed and cursed across the country for decades. For example, those of you familiar with the early history of the Carnegie Foundation for the Advancement of Teaching know that Mr. Carnegie started out to provide pensions for college professors, but he very early discovered that he couldn't provide pensions for college professors until he had determined what a college is.

And in defining a college, the Carnegie Foundation exerted a very powerful control over the direction in which colleges developed in this country during the first third of the present century. Many churches complained, as you know, that their colleges were seduced from them by the lure of Carnegie pensions.

Possibly the most common form of conditioning a grant is the matching fund principle that is so familiar to those of you in Congress. It has been used very effectively by foundations to enable colleges to raise 5 or 10 times the amount of the foundation gift for the endowment or for a current purpose of colleges. The powerful and usually salutary control can, of course, distort a college program if the foundation decides, for example, to aid natural sciences or medicine to the exclusion of the remainder of the program.

Mr. KEELE. I would like to go back to something you touched on earlier as to the influences of foundations, the impact of foundations upon our society. I wish you would amplify that a little bit.

Mr. HOLLIS. I believe my statement was that I considered them next to the church, the school, and instrumentalities of government as perhaps the most influential group in American life. And I consider them so not primarily because of the large aggregate of their funds.

Actually, the dollar value of foundation grants, if they were spread across the whole cultural pattern of America, would not be a drop in the bucket of the total cost of those cultural projects.

The reason that foundations have an influence far beyond the size of their grants is due to a number of factors. One of them is the prestige that is given a project by its being endorsed by a foundation.

That kind of an endorsement given to "Siwash College" is enormously valuable in getting additional funds from the alumni, from the industrial and commercial concerns in the immediate vicinity, or constituents generally.

Another type of influence foundations have has nothing to do with prestige, the matching principle or the conditioned grant but comes from what I call the negative action of a foundation.

The average foundation is able to grant funds only to 10 or 15 percent of the total requests that it has in any one year, so by failing to endorse a project they have a negative influence that is quite as great as their positive influence.

Mr. KEELE. In other words, the power of withholding is almost as great, perhaps, or maybe greater than the power of giving, is that right?

Mr. HOLLIS. That is right.

When I was making an active study of foundations, I was given to see if I thought the foundations were making "bad judgments" in their negative decisions. In general, I did not find anything to complain of other than an undue cautiousness on the part of the foundations. They did not want to stick their necks out on proposals I thought had a lot of potential merit.

Foundation trustees, I found, for example, are about the same type of people, and many times they are interlocking with individuals who are trustees of colleges, hospitals, museums, and so on. They are inclined to exercise the same prudence they would as trustees of any private or public bequest.

They have not used their venture-capital privilege quite as much as I think they ought.

The Ford Foundation at the moment in some circles, as you probably know, is being criticized, on the other hand, for exercising its prerogatives to use venture capital for venture purposes in a way that it thinks is normal and that the critics think inimical to the public interest.

Mr. KEELE. I wish that you would explain a little more fully the concept of venture capital or risk capital in philanthropic giving. You touched on it when you said that they could go into fields which universities felt that they could not tap their endowment funds for or that public bodies felt they could not use public funds for. I would like for you to just explain a little more fully what you have in mind by venture capital and the theories behind it.

Mr. HOLLIS. The theory of venture capital does not date back past World War I in foundation experience.

Prior to that, most foundation funds were set up for succoring the poor and needy in one form or another. They were an ameliorative rather than preventive or constructive in purpose.

The Rockefeller group of foundations possibly exemplify the venture capital attitude as widely and as largely as any group of foundations.

The General Education Board, the Rockefeller Foundation for Education has operated largely on the venture capital philosophy in addition to experimental programs in teacher education, such as the 8-year study by Progressive Education Association, the General Education Board has undertaken equally risky ventures in the sciences, medical education, and the home and farm demonstration work now conducted by the United States Department of Agriculture.

Despite pouring millions of dollars into the venture, the foundations were never able to make the full-time clinical professor of medicine concept common practice in this country. It is accepted as superior practice and is followed in part by medical schools, but it was a venture that succeeded only to a degree.

Certainly, the 8-year study in progressive education was a very great venture into the social, ethical, moral, religious, and educational realm, for all of our mores were involved, but it did not pan out either as the people who supported the research or as the people who conducted it expected. So you have to be prepared with the venture capital concept to have a bunch of duds.

Mr. HAYS. Mr. Chairman?

The CHAIRMAN. I have no questions that I wish to ask, although I would like to make the observation that the doctor, to my mind, has delivered a very informative and a very interesting statement. For myself, I feel deeply obligated to him for the picture he has painted.

I think his statement will be helpful to us in the further hearings we will have and in the formulation of whatever conclusions we might reach, and recommendations we might make.

Mr. HOLLIS. Thank you, Judge Cox.

Mr. KEELE. Just a moment, Mr. Hollis.

Mr. Simpson has a very good suggestion. May I ask you this point, and may I put it this way: Has exemption from taxation more or less been the pattern or characteristic of foundations from the early days?

Mr. HOLLIS. From the early Roman times, around 550 B. C., we find foundations were exempt from taxation.

Mr. KEELE. That has been a continuing characteristic throughout the centuries?

Mr. HOLLIS. Yes.

Mr. KEELE. Is it generally believed by those who are familiar with the problem that it is that tax exemption which permits them to carry out their functions and to act with the efficacy that they have had?

Mr. HOLLIS. Yes. A man is very greatly encouraged to set up such funds if he has the benefit of tax exemption and, of course, where tax exemption is as favorable to foundations as it is in our society at the present time, a man with large means can set up a foundation out of current profits at about 20 or 30 cents on the dollar of his money. The rest of it is money that would come to the Federal Treasury anyway. Our tax structure—as well as tax structures back to 550 B. C.—encourages the creation of foundations.

We have instances, of course, in this country, where a foundation that has applied for and received tax exemption, decided it did not want to live under the restrictions implied thereby, and has given up its tax-exempt status and resumed its status as a private corporation.

Mr. KEELE. Those are very small in the aggregate, the numbers, are they not?

Mr. HOLLIS. Yes. I am much more concerned about possible tax evasion by the thousands of foundations that publish no reports of their activities. The public has no basis for judging whether they are entitled to tax exemption.

Mr. SIMPSON. Just one question. As an outgrowth of Elizabeth 43, there is a recognition that government does have a right or obligation to supervise or to regulate.

Mr. HOLLIS. Yes; it is very explicit in Elizabeth 43 so far as the British Government is concerned; and the principles of founding and supervising foundations have come over into American practice almost unchanged from the Elizabethan period.

We have not gone the other step that the British took more than a hundred years ago in setting up supervisory machinery for protecting the public interest in foundations.

Mr. HAYS. Mr. Forand?

Mr. FORAND. I have one question. I do not know whether it is pertinent at this point or not, and if you do not care to answer it, Doctor, that it all right.

I am thinking of that type of corporation that is set up and then loans out money for manufacturing purposes. I will be specific: I refer to Textron. I believe you are familiar with that set-up?

Mr. HOLLIS. Yes.

Mr. FORAND. Is there much of that going on in this country?

Mr. HOLLIS. We do not know how much of it is going on. We do know of Textron; we know of a college that had a tax-exempt macaroni factory, and of a great many colleges that have used tax-exempt funds in ways that have been in competition with private enterprise. In fact, it is very difficult to invest tax-exempt funds without throwing them into competition, directly or indirectly, with private enterprise. But when a college or any charitable organization invests its funds in a producing enterprise, whether it is a farm or a macaroni factory or a textile mill, why, these and other questions are raised. Most of these loopholes were plugged by the 1950 and 1951 revision of the Federal Internal Revenue Act.

May I again express the hope, Mr. Forand, that this committee will find it possible to give some attention to the issue you raised.

Mr. FORAND. Thank you.

Mr. HAYS. Mr. Goodwin?

Mr. GOODWIN. No questions.

Mr. HAYS. Dr. Hollis, the Chairman spoke for all of us in thanking you for your very scholarly statement.

Mr. HOLLIS. I am delighted to know that the committee is pleased.

Mr. MAYS. Who is the next witness, Mr. Keele?

Mr. KEELE. Mr. Andrews, please.

**STATEMENT OF F. EMERSON ANDREWS, STAFF MEMBER,
RUSSELL SAGE FOUNDATION**

Mr. KEELE. Mr. Andrews, will you give us your name, place of residence, business or occupation.

Mr. ANDREWS. Mr. Keele, my name is F. Emerson Andrews, I live in Tenafly, N. J.; I have been a staff member of Russell Sage Foundation since 1928.

Mr. KEELE. What has been your work primarily with the Russell Sage Foundation, Mr. Andrews?

Mr. ANDREWS. I have two functions in the foundation. I am director of publications, and also director of philanthropic research.

Mr. KEELE. You have acted as a consultant, have you not, on certain publications?

Mr. ANDREWS. Yes, I have been since 1941, a consultant on publications to the Twentieth Century Fund, and for briefer terms have been consultant—

Mr. KEELE. Just a little bit closer to the microphone, Mr. Andrews.

Mr. ANDREWS. For briefer terms, I have been a consultant and adviser to various other organizations in the philanthropic field.

Mr. KEELE. Mr. Andrews, tell us a bit, if you will, of your training for your work, formal and otherwise.

Mr. ANDREWS. I am a graduate of Franklin and Marshall College with an A. B. degree, Doctor of Humane Letters; I have been with the Sage Foundation since 1928, as I indicated.

Russell Sage Foundation began a series of publications on foundations, at first simple directories of foundations, in 1915, and thereby became a center of information on the subject.

I naturally handled these publications during the whole period of my membership on the foundation staff, and begun to take a very keen interest in them. I suggested about 1940 to the general director, then Shelly M. Harrison, that a more complete report on foundations be done, and he and I joined in authorship of the book *American Foundations for Social Welfare*, published in 1946, which was the result of a fairly extensive survey of 505 foundations.

As a result of that, more and more people, thinking of establishing foundations or desiring to benefit from foundation grants, kept coming to our offices.

Mr. Harrison retired, and a good bit of this parade came to my office. So a little later I asked our trustees for permission to go further into philanthropy. I thought we had to look at the whole picture of philanthropy and find out where the foundation fitted into that picture.

They authorized a special study of philanthropic giving, in general. I completed that study in the book *Philanthropic Giving* published in 1950, which does endeavor to give a general picture of the whole of philanthropy with, of course, a special chapter on foundations.

After that we became interested in corporation giving, and I was asked to do a special study on that, which was published just 2 months ago. That also included a chapter on the corporation foundation, a development which I shall wish to mention a bit later in some more detail.

Mr. KEELE. Russell Sage Foundation is unique, is it not, in many senses, perhaps, but in the sense that it is probably the only foundation that has, through its staff, made a study of foundations or philanthropic giving. Am I correct in that?

Mr. ANDREWS. I would hesitate to state that categorically because Mr. Keppel, for instance, of the Carnegie Corporation, did a fine small book on foundations, and many of the annual reports of the Carnegie Corp. and the Rockefeller Foundation have been, in effect, treatments of foundation policy and doctrine which, in many respects, are quite excellent.

Mr. KEELE. That is right. It is true with every report, for instance, of Dr. Carmichael, and so it goes with other presidents of various foundations, but what I am getting at is this: I think more time has been devoted, as I understand it, by the staff of Russell Sage than by any other foundation to this problem, is that correct?

Mr. ANDREWS. I think that is true.

Mr. KEELE. At least, there are no publications which approach those which you have mentioned, and which you authored or co-authored, in the extensiveness and definitiveness of the subject, is that not right.

Mr. ANDREWS. Well, thank you for the commercial, Mr. Keele. However, I think I ought to say—

Mr. KEELE. If your modesty will permit you to say so, is that a correct statement that I have made?

Mr. ANDREWS. I think that is probably true.

Mr. KEELE. All right.

How many years would you say you have devoted to this work? You told us when you started with Russell Sage Foundation, and what your work has been generally, but how many years have you devoted to this particular work?

Mr. ANDREWS. I have taken a particular interest in foundations and their relation to philanthropy since 1940; that would be about 12 years.

Mr. KEELE. Mr. Andrews, would you tell us what you have been able to learn through your study with reference to the numbers, size of foundations, your estimates as to their numbers, assets, and so forth? Just discuss that for us, will you?

Mr. ANDREWS. I think I have to begin with a little more definition, perhaps, than Dr. Hollis gave us. We have approached this from the research viewpoint, where we have to define and chart out what we are talking about. I think I would agree, perhaps, with the number which he has cited as reasonably accurate, if one includes colleges, with their endowment, and all the other organizations which he indicated.

We, however, in attempting to study the foundation as an institution, gave ourselves a somewhat closer definition. I think I had better indicate what I am talking about by reading that brief definition.

Mr. KEELE. Will you, please.

Mr. ANDREWS (reading):

A philanthropic foundation may be defined as a nongovernmental, nonprofit organization having a principal fund of its own and established to maintain or aid social, educational, charitable, or other activities serving the common welfare.

Mr. KEELE. All right.

Now, that would limit the number considerably from the number that Dr. Hollis mentioned, would it not?

Mr. ANDREWS. Very considerably, and also there is one operational restriction that we gave ourselves for the sake of convenience. In our study we did not include foundations with less than \$50,000 total assets. For example, there is a Wilmington foundation which is in most of the published lists and which reports blithely assets of \$849.61, and expenditures for a recent year of \$1.51. We thought it was nonsense to include quite a large number of organizations of about that size.

Obviously, 10,000 foundations with \$50,000 capitalization would be equal only to the \$500 million endowment of 1 foundation, the Ford Foundation, so that while we do strike out for operational reasons these very small foundations, they will be significant only in sheer numbers and not in the amount of money they are able to spend.

We also took out a lot of organizations that call themselves foundations but, in our opinion, have no right to the use of that term. For example, there is the American War Heroes Foundation, or was. It maintained the Park Avenue Canteen. New York Supreme Court Justice Collins dissolved its charter and declared it was "avarice masquerading as patriotism."

There are other foundations which are more nearly trade associations, and the like, and we have not included those in the material that I am about to give you.

The 1946 publication I referred to earlier talked about 505 foundations.

In 1950 I slightly revised that material, adding the new foundations we had reports on, and as of 1950 our estimates on 1,007 foundations, including, we believe, substantially all the large foundations, indicated total assets for these foundations of \$2.6 billion, with expenditures for the year under survey of \$133 million. Those estimates would have to be somewhat increased as of the current date. The Ford Foundation is now in full operation—it was not then; several foundations of substantial size have been created since that time, and a great number of small foundations, family foundations and corporation foundations, which we shall discuss later.

But those figures are still relatively pertinent, and I think that we ought to draw a few comparisons, based on those figures, although they ought to be somewhat enlarged now.

Mr. KEELE. May I, before you start on that, have those again so that we have them clear? On the basis of your estimate of 1950, is that right, we included 1,007 foundations?

Mr. ANDREWS. 1,007.

Mr. KEELE. You estimated their assets to be \$2,600,000,000, is that right?

Mr. ANDREWS. That is correct.

Mr. KEELE. And their income at \$133 million, was that it?

Mr. ANDREWS. Their expenditures at \$133 million.

Mr. KEELE. All right.

Mr. ANDREWS. That may in some cases have represented less than income; in other cases it represented expenditures from capital.

Mr. KEELE. Did you make or are you able to make an estimate as to their income, aside from their expenditures?

Mr. ANDREWS. We did not at that time compile an estimate of income. I should think it is very close to the expenditures.

Mr. KEELE. Are you able, on the basis of your studies, to revise your 1950 estimate to the present time or would it be so inaccurate that you would prefer not to give it?

Mr. ANDREWS. I cannot do it now. However, figures are available; not available quickly, but as you know, in 1950 the new Revenue Act included provisions concerning foundations, which I shall mention at some length later. One of those provisions was that all foundations exempt under 101 (6) must file a Form 990 (a), which includes a statement of name and purpose and capitalization and expenditures, and those 990 (a) reports are available to the public under suitable restrictions. There is also a set of them in the Treasury Department here but, I believe, that is open only on Presidential order.

Mr. KEELE. All right.

Now, just a point about their being open to the public. Where are they available to the public?

Mr. ANDREWS. They are available in the collectors' offices. Are they still called collectors' offices? I think that may have been changed lately.

Mr. KEELE. Well, prior to any change it was known as the collector's office in the various districts, is that right?

Mr. ANDREWS. Yes, and there are about 64 of those.

Mr. KEELE. So that anyone wishing to examine those returns would be obligated to go to the various offices in the 64 offices where those returns were filed, is that right?

Mr. ANDREWS. That is correct.

I ought to add that the American Foundations Information Service is now doing precisely that, is making photographic copies of both the 990 (a) and the trust reports on 1041 (a) which also are available on a similar basis, and that they hope to publish a reasonably complete directory some time in 1953.

Mr. KEELE. But that material, except in fragmentary form, is not available as yet, is it?

Mr. ANDREWS. No summations have been made, and several of the collectors' offices have not yet been visited.

Mr. KEELE. Can you tell us what tests or criteria are being applied by the American Foundations Service in assembling this material?

Mr. ANDREWS. Their definition is very close to ours. We consulted somewhat on it.

Mr. KEELE. So that they are proceeding on approximately the same basis that you have given us here as your definition?

Mr. ANDREWS. That is correct.

Mr. KEELE. The definition of foundations, as stated in simple terms, is that which has an endowment fund or a capital fund from which they make grants or with which they operate in conjunction with making grants, is that correct?

Mr. ANDREWS. Yes, and a separate board. I think that point is important. Yale University we do not include in that list as a founda-

tion because, after all, its endowment is ruled by its ordinary trustees and not by a separate board of trustees.

Mr. KEELE. You were going to make some comparisons for us between the assets of the foundations and their income, with certain other figures, and I believe I interrupted you at that point. Will you resume.

Mr. ANDREWS. Yes. I do think that comparison is important. The American public, in general, regards foundations as a reservoir of almost unlimited funds, able to do almost anything they wish with these funds.

If our figures are reasonably accurate, on the definition of a foundation which we have given, these comparisons would seem to hold: The Department of Commerce, for example, has stated that the American bill for tobacco and its products, Mr. Keele, is approximately \$4.4 billion a year. In other words, the American people exhale in tobacco smoke every year more than the accumulated wealth of all the foundations in America.

Turn now to the expenditures. Many foundations, as Dr. Hollis has indicated, in their early years devoted their funds to relief; the aged were particularly a concern of some foundations.

Now, we spend out of tax funds under the social security program for old-age assistance approximately \$1.5 billion a year for the needy aged. It would take all the expenditures of the foundations that we have indicated for 11 years, simply to pay the cost of care of the needy aged, which now the Government handles out of tax funds.

Mr. KEELE. For 1 year?

Mr. ANDREWS. For 1 year.

Research has become the new focus of activity of many foundations, and occasionally substantial grants are made for research.

For example, the Rockefeller Foundation announced in its 1940 report that it had made a grant of \$1,150,000 for a 18.4-inch cyclotron for biological and medical research. As a matter of fact, that cyclotron, in its development, involved a major magnetic element which became, and I quote, "a key tool for the research which produced the atomic bomb," somewhat to the surprise and, I think, the mixed feelings of the Rockefeller trustees, but there it is.

Now, that \$1,000,000 spent in research is a little more than twice the total annual income of my own foundation. It is a very sizable sum as foundation grants go.

But this Congress, in one of its last laws, Public Law 547, which became a law on the 15th of July of this year, appropriated an additional amount of \$2,987,000,000 for the Atomic Energy Commission as sort of an outgrowth of this Rockefeller expenditure of \$1,000,000, roughly 3,000 times the amount that the Rockefeller grant in 1940 was.

There it is perfectly obvious that the foundation in the research field is able to do only the initial pioneering work, and that the grants foundations are able to make are relatively small in the economy of today.

One other comparison, perhaps, I ought to make. I said we did make a general study of philanthropy, and we found that foundation expenditures amount to approximately 3 cents of the philanthropic dollar in any given year in America today, roughly 3 percent of philanthropic expenditures.

Mr. KEELE. All right. May I ask you this: In calculating the philanthropic dollar are you talking now about private philanthropy?

Mr. ANDREWS. In the philanthropic dollar we include only private philanthropy, and we define philanthropy in terms of the Bureau of Internal Revenue; anything that is deductible on your private income tax we include in our figures.

Mr. KEELE. So that is exclusive of any moneys spent by the Government, either on research or for the alleviation of the aged or anything like that? You are talking now merely about private giving?

Mr. ANDREWS. I am, indeed.

Mr. KEELE. And the foundations' contribution to that philanthropic dollar is 3 cents; is that right?

Mr. ANDREWS. That is approximately correct.

Mr. KEELE. I would like to suggest that perhaps this might be a good time to adjourn for lunch.

Mr. HAYS. The committee will be in recess until 1:30.

(Whereupon, at 11:55 a. m., a recess was taken until 1:30 p. m. the same day.)

AFTERNOON SESSION

Mr. HAYS. The committee will be in order.

Mr. Keele, will you proceed, please.

Mr. KEELE. Yes, Mr. Chairman.

Mr. Andrews, when we adjourned for lunch, I think we had pretty well covered the question of the number of different-sized foundations and some illustrative comparisons of the amounts they have at their disposal with other amounts that are spent in various activities.

I wonder if we could move on, unless you have something more to add on that, to a description of the general types or chief types of foundations. Would you enlighten us on that, please?

STATEMENT OF F. EMERSON ANDREWS—Resumed

Mr. ANDREWS. Yes; I think it would be very helpful to describe various types of foundations. Now, these types run into one another to some extent. One foundation may be one type today and next year may drift into the other type, but they are quite different in their handling of problems, and our thinking will be clarified if we look into these various general types. I would mention six types in all.

The first is the general-research foundation. Most of the large foundations that are household words and most of those that Dr. Hollis was mentioning are of this general class.

The Rockefeller Foundation, the General Education Board, the Ford Foundation, the Carnegie Corp., the Carnegie Foundation for the Advancement of Education, the Markle Foundation, the Commonwealth Fund, and many others; there are altogether about 60 or 70 foundations, we figure, in the United States which have assets of \$10,000,000 and more, not many more than that; a foundation with assets of less than \$10,000,000, if it spends only its income, hasn't very much income to spend in any given year.

Most, substantially all, of these large foundations are in this one group of general-research foundations which we have been mentioning. They are the ones that are the heart of foundation activity and

practice. Substantially all of them do publish full descriptive annual reports. They operate in the goldfish bowl of public opinion. For the most part they are very well run.

No one individual, perhaps, would agree with all their decisions. I probably would not; you probably would not. But, so far as I have been able to observe them, their trustees do the best job that they collectively can do toward spending their funds for the purposes that the foundation was created to serve.

Mr. HAYS. Excuse me, Doctor. How many in this first group that you mentioned, approximately?

Mr. ANDREWS. Of the large foundations in this group, there are between 60 and 70 that have capital assets of \$10,000,000 or more.

Now, there are other smaller foundations that are also general-research foundations that belong in that group, but the 60 or 70 are the bellwethers, the leaders who do most of the work.

Mr. HAYS. Now, would you regard the Carnegie group as one, or the 22 as separate?

Mr. ANDREWS. Well, I think you would have to distinguish in the Carnegie group. For instance, the Carnegie Hero Fund would be smaller and specialized and doesn't belong in this group.

Mr. HAYS. Generally we think of the Carnegie funds as large foundations.

Mr. ANDREWS. But they are not all. Well, as to relative assets, in our study of 505 foundations, we discovered that the 30 largest foundations of the 505 held 48 percent of the assets of the whole 505.

Now, bringing that a little more to date and remembering that now the Ford Foundation has become active and its announced assets are in the neighborhood of \$502,000,000, I would suspect, though I cannot prove it, that close to 50 percent of the assets of all foundations are embraced in at least the top 60 foundations.

So much for perspective on the foundation problem, and so much, too, for that group of general-research foundations.

A second class is the special-purpose foundation. These are created to serve special individual purposes rather closely detailed, usually in their charters or at least in a letter of gift. For example, there is the LaVerne Noyes Scholarship Fund. These scholarships are available only to descendants of World War I veterans.

You have special purposes in two senses, only scholarships, and to a particular group.

Another one that illustrates not only special purpose but a special purpose which failed is the small Samuel G. Davis Fund of Mashpee, Mass. It was established in 1930 to be awarded to Mashpee students for "good, kind manners." By 1938 the trustees were petitioning the court to use their funds for school construction, because, said the trustees, and I quote: "We can't find enough mannerly boys to reward."

So, we have the small special-purpose foundations. Sometimes the purpose is highly desirable and is valid for a long period; sometimes the special purpose becomes obsolete and can no longer be fulfilled, or at least cannot be fulfilled effectively for society.

The third group is the family foundation. That is a generic term. They aren't all family foundations. Some of them are individual foundations, but characteristically a family foundation is established by a living donor.

He may contribute to it year after year instead of making a single grant—perhaps in his will. Other members of his family may also contribute to it.

To a large extent it serves as a channel for current giving. Its corpus may be built up, or it may not be built up very rapidly and it may simply be a convenient channel for his current giving.

Now, as you know, individuals are now allowed to deduct 20 percent of their income from their income tax if contributed to charitable purposes. Very large estates are not being built up today to the extent that they used to be. We thought at first when the high tax rates came in, that there might be an end to the creation of substantial foundations. The family foundation is to some extent a counterinfluence. It seems quite possible that substantial foundations can be created by these year-by-year accretions from individuals and families.

The family foundation has also some unfortunate aspects. In our surveys we very often found that the family foundation had no address but a lawyer's office, and that it was quite reticent about its funds and what it spent them for, if indeed it did spend them.

We think that many family foundations are completely legitimate and highly desirable organizations. We suspect that this committee may discover some others which function mainly as a means of tax avoidance or even evasion. We have no documentation on that because we have no right of subpoena, and simply received the information foundations were willing to give us. I need not say that information that may be damaging to the foundation ordinarily did not come to our hands.

Mr. KEELE. May I interrupt you there a moment, Mr. Andrews, to ask you what your experience has been in attempting to get information from foundations, whether you met with reluctance or sometimes refusal in your efforts to learn. I am speaking now of the general range of the foundations.

Mr. ANDREWS. With respect to the large foundations in class 1, almost without exception we received all the information we requested promptly and fully.

With respect to the small foundations, we frequently experienced difficulties in getting any information; information was declined, or our letters were not even answered.

One word ought to be put in as to why some of these foundations are legitimately not eager to have their names included in such lists as we published in our study. A man who contributes to a family foundation, and desires it merely to serve as his personal giving agent, realizes that if it ever gets in a directory, every money-seeking organization in the country is going to bombard him with appeals, and he will be under great secretarial expense and considerable bad public relations in refusing these appeals, which his fund cannot possibly meet in any event. That is one reason for their not desiring to be in a general directory, such as the Russell Sage Foundation study presented, but that is perhaps only one reason.

Mr. KEELE. All right; I think that answers it.

Mr. ANDREWS. It should be said that family foundations have in the past, and also will in the future, grow into class 1 foundations, the general-research foundations.

Perhaps even the Rockefeller Foundation when it was initiated might be regarded as a family foundation. The trustees were all close

friends of Mr. Rockefeller, and the foundation offices were pretty much combined with his own offices, and it is only in relatively more recent years that the trustees have been much more diversified and the program of the foundation often has very little relation, perhaps, to some of the primary interests that were Mr. Rockefeller's.

In other words, the family foundation can grow into a general-research and service foundation, and many of them will in the course of time. They will lose the characteristics of contributing only to the charities of the donor.

The next classification is an exceedingly interesting one and a fairly recent development, the corporation foundation; that is to say, the foundation established by a business corporation for charitable purposes but, once established, legally distinct from the corporation.

To understand these corporation foundations which have been a mushroom growth of the last 4 or 5 years, we perhaps have to look at corporation giving for just a few minutes.

In 1936, the first year corporations were permitted to deduct up to 5 percent of their net profits if contributed to a philanthropic purpose, and thereby avoid the corporation tax, corporation giving was reported at \$30,000,000 and remained in that low range for a number of years. By 1945, however, corporation giving had leaped to \$266,000,000.

Indeed, since 1944 American business corporations made reported gifts to philanthropic objectives which exceed in each year the total collections of community chests, that is one measure of what corporation giving has become.

Mr. KEELE. May we have that statement again. I would like to catch that.

Mr. ANDREWS. American corporations since 1944 have each year given for philanthropic purposes more dollars than the total collections in those years of all the community chests in America. That is a measure of how corporation giving has grown.

There have been tax factors in that, of course. I think I need not remind the Members of Congress here, but perhaps the audience, that the corporation tax rate is currently 30 percent on the first 25,000 of net income, 52 percent on the rest, and then there is an excess-profits tax for some corporations which adds 30 percent more, or 82 percent on some portions of corporate income, so that a corporation in the excess-profits bracket can usually contribute up to its 5 percent on the basis of 82-percent tax reduction on that contribution.

It spends 18-cent dollars for charity, which is a charitable bargain of which corporations are glad to take advantage.

Many corporations, in order to organize and systematize their charitable giving, have organized corporation foundations. These foundations may or may not have the same name as the corporation. They may or may not receive also gifts from members of the firm.

For example, the Bulova Watch Co. does have a Bulova Foundation. It receives the contributions of the corporation and also contributions from members of the firm.

The Rich Foundation, of the Rich Department Store in Atlanta, was set up by members of the Rich family but has become also a channel for the corporation giving of the Rich Department Store.

These corporation foundations have certain definite advantages for the corporation. For example, a corporation does not know what its

profits are apt to be until pretty close to the end of the corporate year. It is then perhaps too late to give wisely the amount the corporation decides to give.

It can, however, with a single check, place that money in the corporation foundation, and it can then be spent with a little more consideration of objectives and with more time to investigate the applicants for the foundation's funds.

Also, social agencies as well as corporations have been worried at the possibility that, if they are relying heavily upon corporation gifts and a period of depression or decreased income does come along, corporation gifts may nearly vanish.

We have not had a major red-ink period since 1936, when corporation giving first began to be tabulated and known; so, we don't know precisely what will happen. But, recognizing this probability, some corporations have in part organized their foundations as banks.

The International Harvester Corp. told me that the International Harvester Foundation is to a considerable extent a "peaks-and-valleys" foundation to which they can contribute in good years and equalize their giving in bad years when they cannot contribute heavily from current income. That seems to me an entirely legitimate and desirable use of the foundation forms.

We tried to find out how many corporation foundations there were. We were aware of a tremendous growth in their formation. We did a sampling study in our general survey of corporation giving, and if the percentage which held for that sample does hold for all American corporations—and there are 600,000 of them; we were unable to question the whole 600,000, obviously—then there may be now not less than 1,500 corporation foundations, most of them organized within the past 3 or 4 years.

In January of this year there came across my desk alone, in Russell Sage Foundation, 162 letters in that single month from corporation executives or from their lawyers asking about ways and means of establishing corporation foundations, and I am sure there were activities in various other places where people who know something about foundations could help them.

So this is a development which is recent and is exceedingly active at the present time. In my opinion, it is on the whole a good development. It takes advantage of the tax situation, of course.

I would like to say one other thing while I am on the subject of the tax situation, footnoting a remark of Dr. Hollis this morning.

You will remember that question was raised with respect to New York University and the Mueller Spaghetti Co. in the avoidance of taxation on the profits of the Mueller Spaghetti Co. because it was being contributed to the Law School of New York University.

That was, I am sure, intended as a historical note. It is no longer true. The members of this committee, I am sure know that the Congress passed in 1950 a revenue act which paid considerable attention, and needed attention, to abuses or potential abuses in foundations. It enacted in that year a provision that the profits of a foundation would be taxed if the foundation engaged in activities not substantially related to its exempt purposes. I think I ought to get this fairly accurately, since it is important. Tax exemption is denied on income in excess of \$1,000 of a business enterprise not substantially related to the organization's tax-free activities.

The making of spaghetti is not substantially related to the making of lawyers, and the income of the Mueller Spaghetti Co. is taxed as is the income of any other spaghetti company, currently. That is by way of a footnote on the morning, to avoid what may have been a slight misunderstanding with respect to the tax position of foundations at the current time.

Now one other item on taxation which I ought to mention. Foundations also are no longer allowed to accumulate sums unreasonable in amount or duration.

That is an item which foundation executives have been puzzled over a great deal, that word "unreasonable." It has not been very closely defined as yet.

From the viewpoint of the foundation executive, most would agree, I think, that foundations ought to spend their current income. However, it sometimes is difficult to spend that current income in a particular year.

Plans may be laid for a major project which does actually require the income of 2 or 3 years before it can be put on foot, or a plan which seemed to be going through and for which an appropriation was put on the book can actually not be spent because something goes wrong. Perhaps a man dies or the project can't be pushed forward as rapidly as expected.

There has been some fear among some foundation executives that the interpretation of this "unreasonable" would be quite close and they would suddenly find their tax exemption removed. There is danger that through this fear they may be pushed into making expenditures which are not as wise as they could have devised, had they expected a bit more time, and could be sure of a liberal interpretation of this term.

This from the viewpoint of the foundations with respect to a provision that in its general respects most foundations approve, and would be glad to abide by. All they need is an interpretation of the term that will recognize the practical difficulties of spending money usefully and constructively.

I return now to groups of foundations, having been thrown off into this tax angle by the fact that corporation foundations are to a considerable extent benefiting from tax rates at the present time.

The next general class of foundations is the community trust. Dr. Hollis mentioned the community trust this morning. It was pointed out that the Cleveland Foundation was the first of these. They are means of accumulating in one fund a great many small sums.

We have been concerned by the inefficiencies of the creation of quite small foundations. We think that a foundation that has an income of perhaps less than \$100,000 a year can scarcely afford the office machinery and the capable trustees, who usually serve without pay, to spend that money wisely; that smaller funds, with less than this amount to spend per year, might well consider the possibilities of uniting in some larger unit so that administrative expenses would be minimized and there would be an opportunity on the part of this larger unit to look more carefully into the possibilities of effective expenditure of the combined funds.

And, of course, the community trust is one such device. There are about 90 functioning community trusts at the present time. Most of them are in individual cities and usually bear the name of that city.

Most of them have been organized largely at the instance of banks which hold their funds and turn over the income from those funds to the distribution committee of the community trust.

Nearly all of them have one important and useful provision, that if the purpose for which the individual fund was set aside can no longer be effectively fulfilled, the donor agrees that the community trust distribution committee shall have the right to change that distribution into a channel as close as possible to the original purpose. It is a sort of in-built *Cy pres* provision, and in our opinion a very wise one.

As to the size of the community trust movement, the largest of the community trusts is the New York Community Trust, which has over 100 separate funds. The assets of all the community trusts, according to a survey conducted by the New York Community Trust, were in the beginning of this year \$110 million, their expenditures for last year were approximately \$5 million.

They are not yet a very large element in the foundation field, they are a useful example. They are subject to a degree of community control that for trusts organized for community purposes is important and desirable.

Perhaps one should mention the so-called Common Good funds in Scotland, by way of comparison. In Scotland there have been organized for now many years what are called the Common Good funds. They function for general community purposes in the Scottish towns in which they are organized and they become the recipients of the funds that come to the court from persons dying intestate with no heirs, unclaimed funds in banks, and the recipients, too, of funds which persons may will to them.

They are community funds, too, and it might be that in American law the community trusts could also become the recipients of some of these wayward funds for which now distribution is somewhat difficult.

The final and sixth of the group of foundations is a unique example, the National Science Foundation, the only foundation that is organized and supported solely by the United States Government. The Smithsonian Institution has certain governmental entanglements, shall I say. The United States Government has its funds and pays interest and has certain memberships in its board of trustees.

But the National Science Foundation survives on appropriations by the Congress and is the only national foundation. Obviously it does not come within the proper purview of this committee, since its tax exemption is not a question to be raised; it lives on tax funds.

But nevertheless something should be said about it because of its potential effect in helping organize the foundation field. The National Science Foundation was established on the 10th of May 1950, for, and I quote from the act, "research in the mathematical, physical, medical, biological, engineering and other sciences, and so forth."

There is in that list a significant omission. The social sciences do not appear.

Many of you remember the long debates, when the National Science Foundation was in progress of organization, on the inclusion of social sciences. There was considerable resistance in the Congress to their inclusion, and the final decision appears to have been reached not to include them by name, but not to exclude them. They could in the

future be included under other sciences. But in fact the program of the National Science Foundation currently is concentrated upon the physical sciences.

The act limits the annual income of the National Science Foundation to \$15 million. The appropriation for the current year, I believe, was \$4,750,000.

The National Science Foundation is in a key position to do an exceedingly useful job of coordinating research activities among the general foundations. It is already doing useful work in compiling a directory of research personnel, and it could very easily become a center for clearing on projects which the independent foundations are undertaking so that unnecessary duplication would not occur.

That covers what I call the six groups of foundations. You will see they are not necessarily distinct and separate groups. They slide over one to the other, but they do have quite different characteristics in operation, and I thought it might clear up our thinking, if we pointed out these major divisions.

Mr. KEELE. Mr. Andrews, you spoke of the fact that the first group, they limited their activities largely to research. And in the second group you spoke of those with special purposes.

Are you in a position to say what the majority, if there is a majority, trend at least in the family foundation as to the line of endeavor they take in their activities?

Mr. ANDREWS. We do not have enough information about enough of the many family foundations to give you proportional statistics. Our impression from observing some of them in action is that such a foundation usually starts as a personal organ of giving, and its gifts can scarcely be distinguished from the sort of giving that any individual makes.

It will probably contribute to the community chest and to the American Red Cross and to polio and to heart and to cancer and the like.

As its funds grow and as perhaps its trustees grow in experience, it may branch into somewhat more, shall I say, sophisticated giving, that is, giving which looks a little more at the roots of social disaster.

Let's think of three possibilities in giving. One is to get people out of trouble once they are in. The second is to keep people from getting into trouble. The third is to get at the roots of things which would cause them to fall into trouble, and to give people the possibility of developing to the full all their potentialities for useful, happy, creative living.

Mr. KEELE. I take it from what you have said here that the family foundations in their first phases at least are apt to contribute to the first group or method of giving, that is, palliative giving rather than the prophylaxis or the preventive basis.

Mr. ANDREWS. Yes.

Mr. KEELE. All right. Now what with reference to the corporation foundations? Have you been able to determine any trend in the type of activity in which they are engaged?

Mr. ANDREWS. Yes; there we have quite detailed figures. Unfortunately the figures apply to corporation giving rather than specifically corporation foundations, but I think it may be said that the same proportions probably follow in general.

Corporations at present are still giving to rather traditional causes for the most part. We even have percentage figures which I will read in half a second.

The corporations in our random sample gave 44 percent of their total reported gifts to welfare agencies, and nearly all of that went directly to community chests. Indeed, 36.2 cents on the dollar of corporation giving went directly to community chests.

Health agencies received a little more than a quarter of the corporate dollar, 26.6 cents of the corporate dollar. Education received about a fifth, 21.2 percent, of the corporate dollar.

Religious agencies received only 4 cents of the corporate dollar, and the reason for that, I think, is obvious to you. A corporation has in its board of directors and among its stockholders persons of diverse faiths, and they find it difficult, at least, to contribute to sectarian religion, and do not contribute very much.

This is unlike the individual. Individual giving, we find goes nearly 50 percent to religious agencies, corporation giving 4 percent.

Then we were unable to pinpoint the remaining 4 percent, 3.8 cents of the corporate dollar.

We believe that the corporation foundations follow this pattern to a considerable degree, but because it now is a foundation and may have on its board of trustees not only the corporate directors, but may draw in from the outside persons familiar with the areas in which the corporation desires to contribute, that segment of corporation giving may be beginning to change.

Every corporation has certain areas in which it has special knowledge and where it could make a gift that could not be duplicated by perhaps any individual or any other corporation. Let me give you one example.

I have already mentioned the Bulova Foundation set up by the Bulova Watch Company. The Bulova Foundation has set up the Joseph Bulova School of Watchmaking in Long Island. That school trains watch repairers. It takes as students and gives free tuition to only disabled veterans.

I visited the school and found many wheel-chair cases, paraplegics, being trained in that school. Now watch repairing is one of the few jobs that a wheel-chair case can handle as efficiently as a man with all his normal limbs. These disabled veterans are being given a trade at which they can work effectively instead of being wards of the Government for the rest of their lives, having to live in a wheel chair with no active means of self-support. They are being returned to useful lives, they are becoming taxpayers all over again. True, they do continue to receive disability pensions, but they are also beginning to pay taxes.

Now, only the Bulova Company and two or three other watch manufacturing companies in this country would have been able to undertake that particular philanthropy. They have the know-how, others do not.

Similarly one would hope that as corporations grow in experience in giving, the corporations which have a particular concern for transportation, the motor companies, the railroads, the airlines, might have a particular concern for city planning, for studies of parking, for Travelers Aid and other philanthropies in their area.

We hope that private business enterprise as it contributes to private welfare enterprise will use the imagination which has brought private business enterprise so far in devising new and constructive ways of contributing to private welfare, making that imaginative and creative and effective. And the corporation foundation is a well-devised instrument for this purpose if it is well run with trustees who have time and facilities for doing the extra study that is necessary for such creative programs.

Mr. SIMPSON. Mr. Andrews, I am very much interested in your summary. It is educational to all of us, I believe.

I am concerned about several matters I need some more information on, and one of the first has to do with this trend toward corporation giving.

You mentioned that one advantage of a corporation giving to a foundation was that perchance there might be a bad year economically, there would then be a reserve which could be dispersed more timely. Our tax law in denying the right to accumulation under that subjective interpretation as to reasonableness could, if interpreted strictly, eliminate that possibility of delaying benefits by voiding accumulation necessary for hard times.

Mr. ANDREWS. Mr. Simpson, I think not. The gift of the corporation to the corporation foundation is not income to the foundation. It is an addition to corpus, and therefore, does not come under, in my opinion, this rule against accumulation.

Now when that corpus begins to realize income, then the income from the corpus must be spent.

Mr. SIMPSON. Then when you referred to that figure of 46 percent, I believe it was, to which the corporations are now contributing, were you referring to a corpus contribution?

Mr. ANDREWS. No, that was actual expenditure.

Mr. SIMPSON. By the corporation?

Mr. ANDREWS. By the corporation or its foundation. In our questionnaire both items were reported as expenditure.

Mr. SIMPSON. Then you think this matter of interpretation as to reasonableness would not affect the distribution in hard times?

Mr. ANDREWS. It will not affect the distribution when the corporation gives money to a separate corporation foundation, because it then becomes corpus and not income.

Mr. SIMPSON. Can we agree that when times get bad the corporation would be far less likely to make a contribution?

Mr. ANDREWS. I think we certainly can agree on that.

Now I have talked to many corporation executives on that subject and pointed out the dangers, and they all recognize them, and most of them say, "Oh, no, our philanthropic contribution is one of the last things we will reduce."

But I have also examined the records of corporations which happened to have a bad year, even though the country as a whole was not having a bad year, and it is my opinion that philanthropic contributions in a bad year for that particular corporation will be heavily reduced in most corporations.

Mr. SIMPSON. Of course, I think you are right on that. I think that is a practical approach and it is the approach that would probably be used.

Well, now the money that a corporation gives for charity comes either from what would otherwise go, in the final analysis, as dividends, or as taxes to the Federal Government.

Mr. ANDREWS. Well, it may be useful to give you two extremes we met in our study of corporation giving in that respect. The president of one corporation wrote us a very warm letter and said, "Corporation giving doesn't make any sense at all. Any money we would give has to come either from dividends of stockholders, the wages of employees, or be reflected in a higher price for our product."

Now, that has a certain amount of logic in it. I think it is not the whole story, however, and let me give you an opposite extreme. This comes from the person in charge of corporation giving of one of our largest corporations. He does not wish to be named. He said: "If we establish an operation in a remote section in Brazil, we must set up all the welfare services ourselves. We build a school, we build a hospital, we supply the nurses, we pay the doctors, we may even build the church, we build the roads, and we do this not because we are philanthropists at heart but because we know we cannot have a profitable business operation in a community where these services are not available. And," said he, "in America, of course, we don't occupy this whole 360-degree circle of philanthropy. At present we occupy perhaps 45 degrees of the circle but in my opinion American corporations for their own good need to occupy a great deal more of that circle, perhaps as much as 180 degrees of that circle, because the large private donor is being so hit by taxes that his contributions are diminishing, and corporations have to help to fill that gap."

So there are these two points of view, and one is that corporation gifts benefit the corporation so that it is not a deduction, or not wholly a deduction, from corporate profits.

Mr. SIMPSON. You touched on the matter of corporation as a part of a training program, creating a foundation which tends to serve that corporation or that business in which that corporation is engaged.

Do you commend that as a policy; and if so, how would you limit it? To help give you an idea of what I am driving at, you said with respect to the watch industry it is good where a crippled veteran is involved. I ask you would you apply that same reasoning to a railroad company which wanted to train flagmen or engineers or track workers? Where would you limit the corporation in getting a deduction on account of contributions for charity when used under those circumstances?

Mr. ANDREWS. I think, sir, that no deduction should be granted if it is training its own employees, and I erred in not making clear the very careful distinction on the part of this watchmaking school.

No graduates of this school are employed by the watchmaking company. They are watch repairers who go out in various independent watch-repair shops all over the country, but because of this difficulty which you foresee no employees of that watchmaking school are employed by the Bulova Co.

Mr. SIMPSON. Are they barred from employment by that company?

Mr. ANDREWS. I don't know that they are barred. There are four-hundred-odd graduates and none of them has been employed. I think the company would discourage employment for the reason that you stated.

Mr. SIMPSON. Now, one other general subject. What relationship, if any, have you discovered between the effect of Government upon the use of foundation funds; that is to say, does Government influence what foundations spend?

Mr. ANDREWS. Yes. The things that Government does foundations don't need to do.

Mr. SIMPSON. Let's take it the other way. What the foundation may do Government frequently can't do. Now, to what extent does Government influence foundations to do what Government can't do? If I don't make clear what I am driving at, I will try to rephrase it.

Mr. KEELE. Let me interject this: I think that I may have given the impression that Mr. Andrews had finished with his testimony. It was only that phase of it, Mr. Simpson, and I think he is later going to discuss the fields.

Mr. ANDREWS. I plan to discuss that fairly extensively.

Mr. KEELE. A little later.

Mr. SIMPSON. All right. Let him go ahead.

Mr. KEELE. I did give that impression. It was only on that phase, and I think it is well that you put your questions as you did, but on that particular question I think you are going to cover that, are you not, Mr. Andrews, in a later period?

Mr. ANDREWS. Yes, sir.

Mr. KEELE. Any other questions from the committee on this phase?

Mr. GOODWIN. Mr. Chairman, one question with relation to category 5, community trusts, whether or not there is a tendency of any segments of the ordinary Community Chest or community-fund movement to assume the characteristics of the community trust.

Mr. ANDREWS. Yes, sir; there is some tendency.

In Rochester, N. Y., the Community Chest is substantially a community trust, and there are Community Chests in various cities which have accumulated some funds, and to that extent they are serving the same function as the community trust.

I personally think that Community Chests and community trusts should work in quite close collaboration, and usually they do. A Community Chest, for instance, is sometimes asked to handle such a fund, and for the most part they have said, if there is a community trust available, "Yes; we want your contribution, but won't you please make it to the community trust and they will give the income each year to us."

But the two do serve the same purpose, except that the chest is for current expenditure and the trust for accumulation of funds of which the income shall be spent. They should be closely correlated, and Community Chests and Councils, the national organization, is making great efforts at that proper correlation.

Mr. HAYS. Just to clear up the figures you quoted, corporation contributions, you said that sum exceeded last year the contributions to the community chests of the country?

Mr. ANDREWS. Yes, even though corporations give the community chest nearly 40 percent of what the community chest received, even so the total—

Mr. HAYS. That figure shows up in both figures?

Mr. ANDREWS. That is correct.

Mr. HAYS. The Community Chest total includes that 40 percent of the corporation gifts—

Mr. ANDREWS. That is correct.

Mr. HAYS. Go ahead, Mr. Keele.

Mr. KEELE. Supposing, then, we move to the manner of setting up foundations, Mr. Andrews.

Mr. ANDREWS. Dr. Hollis has already given you some of the facts there. I will briefly review them.

There are in general three ways of setting up a foundation. The first and least usual one is by special act of Congress.

Only a few foundations have such special acts, and I imagine the Congress would not be eager to indulge in the many special acts which would be required if all foundations had such acts. Examples are the Carnegie Institution of Washington, the General Education Board, the Carnegie Foundation for the Advancement of Teaching.

A second way of setting up a foundation fund is to organize it as a charitable trust under a will, resolution, or instrument of trust.

An example of that is the community trust we have just been discussing. These trusts are set up under State laws. They take advantage of the Internal Revenue Code provision 162 (a) rather than 101 (6) for their tax exemption. Most of them are smaller than the third class I shall discuss soon, but there is no reason why they can't be large also. There are certain advantages in the trust form, certain other advantages in the membership corporation form.

By far the commonest form of organization is incorporation under the laws of a particular State, as a membership nonprofit corporation. Most of the foundations we have been discussing are so organized.

The incorporators are usually the original board of trustees. They secure exemption by submitting to the collector of internal revenue their charter and any other pertinent documents, a record of their finances, their expenditures for a year. Usually they do not succeed in getting that exemption until 1 year of operation has taken effect. That is the commonest form of foundation organization.

I, perhaps, ought to add that such foundations may be organized by living donors or they may be testamentary, or they may be testamentary with delayed effectiveness. That is to say, the will may set up the foundation but living beneficiaries may have its income for a period of years until their deaths.

Mr. KEELE. Now let's move on to the question of methods of handling endowments.

By that I mean a discussion of those which are in perpetuity, those where there is an optional disbursement of endowment or principal as well as endowments, and those which are limited specifically.

Mr. ANDREWS. Well, I should like to begin with one variation of the first, the accumulating foundation. This was mentioned briefly this morning.

A very few foundations are required to accumulate their income and to maintain their capital for a period of years. Dr. Hollis mentioned the Franklin Foundation and what it has done. I would like to give you a few financial statistics on what happened.

As you know, many people have been fascinated by the theoretical possibilities of compound interest over long terms of years. Here we have one example. Let's take only the Boston experience. We could add the Philadelphia one, but let's abbreviate it.

As you heard this morning, Benjamin Franklin bequeathed to the town of Boston £1,000 sterling, roughly \$5,000. The first part of that

sum, one hundred one-hundred-and-thirty-firsts of it, the large part, was to accumulate for 100 years, from 1791 to 1891. For some reason they didn't get around to toting it up until 1894 at which time that original sum, about \$3,800 of the original \$5,000, had grown to \$329,300.

The Franklin Technical Institute was begun in 1906, and by the time it was completed the funds available were \$438,000. That is part 1 of that Franklin fund.

Now, part 2 was a small sum, only thirty-one one-hundred-and-thirty-firsts of the original \$5,000, only \$1,200 roughly in 1791. That, however is to keep on accumulating until 1991.

I checked with the director of that fund last week, asking him what the accumulation now was from this \$1,200. He had figures only for the first of the year. \$1,200 had grown to \$1,077,185. In 1991, whatever that sum may be by that time be is to be divided between the town of Boston and the government of the State.

The Duke endowment also was required to accumulate 20 percent of its income until it should have an additional \$40 million.

Looking at the theoretical side, of course, such accumulations over long periods of years make absolute nonsense. Invest \$1 at interest compounded annually at 5 percent, in 100 years it becomes \$131.50, in 500 years it becomes \$39 billion, in 1,000 years it becomes theoretically a figure 22 digits long.

Obviously we cannot have accumulations over long periods of years. Either the principal has to be dissipated or chances for investment disappear, so probably wisely there is this rule that we have referred to several times against unreasonable accumulation.

MR. KEELE. There was a limitation, was there not, on the length of time that the Duke funds should accumulate, until it reached a certain figure?

MR. ANDREWS. Yes; it was toward a figure rather than a year. So much for accumulating foundations.

I assume none of them are now being set up because of the 1950 Revenue Act. I don't know what effect that revenue act may eventually have on the Franklin Foundation. I have not found out whether it has any effect on that.

We go to perpetuities. As Dr. Hollis said this morning, many of the older foundations are set up as perpetuities. In them the trustees are permitted to spend only the income. And under the 1950 Revenue Act they are compelled to spend substantially the income.

Then we have the half-way group which are sometimes called discretionary perpetuities. They are set up so that they can be perpetuities but under various provisions the trustees have the right to spend out of principal. The first important discretionary perpetuity was the Peabody Education Fund established in 1867.

In that case Mr. Peabody provided that after 30 years the trustees by a two-thirds vote could spend the principal and in fact the Peabody fund has been dissipated and no longer exists.

Most of the Rockefeller benefactions are discretionary perpetuities, any in many cases the trustees have been spending heavily out of capital. I believe all of the Carnegie benefactions are perpetuities. Other foundations differ.

If there is a trend, it is toward discretionary perpetuity so that the trustees have at least the privilege of spending capital if conditions change.

Conceivably, for example, interest rates might heavily drop, and of course a perpetuity is of no value whatever if interest rates approach zero, because it has no income. Or the value of the dollar may change drastically, and if the dollar depreciates in value, then the income of the perpetuity decreases in effectiveness.

Finally there are the liquidating funds. Those are foundations in which the trustees are obliged to spend both capital and income by a stated period.

Mr. Julius Rosenwald was perhaps the most vocal of the proponents of liquidating funds. He thought that the present could not foresee the needs of the future, and that present profits should be spent largely to take care of present needs. He provided that his trustees should liquidate the Rosenwald Fund within 25 years of his death, and the Rosenwald Fund was in fact ended in June 1948, and no longer exists.

Mr. KEELE. I would like to have you discuss for the committee here some of the problems of the staffing and administration that confront the foundations. How do they go about their business? How do they get their trustees? How do they get their operating staff, and related problems of administration?

Mr. ANDREWS. The trustees of a foundation are the foundation legally. If it is a membership corporation, they are usually the only members of the corporation. The whole power of the foundation resides in their hands.

The trustees are appointed by the original donor if he is living, or often the manner of their appointment is indicated in his will. How they organize thereafter depends upon the purposes and the size of the foundation.

Mr. KEELE. Mr. Andrews, if I may interrupt, I have suggested to the committee that we take say a 5-minute break. I think there is a good hour yet before you go, and my guess is that you would like a 5-minute recess. If so, we will take a 5-minute recess.

(There was a short recess.)

Mr. HAYS. The committee will be in order.

Mr. KEELE. All right, Mr. Andrews, will you resume at the place where I interrupted you?

Mr. ANDREWS. We had started to talk about staffing and administration, and I had said that the trustees are the foundation and the way they organize thereafter depends in part upon the purposes of the foundation and in part upon its size.

If it is a foundation which makes grants primarily and is a small foundation, then the trustees themselves may be the whole foundation. They perhaps meet two or three times a year, consider all the requests for grants that have come in to them or any ideas they themselves have. They may not even hire a secretary. There may be no expenses literally. The foundation is run just by the trustees.

I ought to say at this point that the trustees usually are not paid. That is not the universal case, but payment of trustees is frowned upon in general.

The Carnegie Corp. trustees originally were paid \$5,000 a year. They themselves voted against such payment. There are exceptions.

The trustees of the Duke Endowment receive 3 percent of the income of that foundation, divided among themselves. There are a few other similar instances.

One hopes that a trustee has sound business judgment, experience in various fields in which the foundation may operate, and social vision. They are not very different in character from the trustees of colleges and universities and museums. They are the same sort of people and sometimes they are the same persons as I think Dr. Hollis pointed out this morning.

For the larger foundation, the trustees cannot perform all the functions themselves or, if they try, they are perhaps being unwise.

For the slightly larger foundation, they need an executive and perhaps a secretary who will handle routine correspondence, who will pass first judgment on requests for contributions, and bring to them the more promising of the proposals for their decision, and do the final work of sending out the checks and reporting on results.

For the large foundation, even though all its funds may go in grants, a considerable staff is advisable and necessary. A very large foundation may get as many as 1,000 requests for grants in a week. That was the experience of the Ford Foundation recently, I believe.

In addition to the sheer mechanics of handling those grants, the large foundation has a responsibility for looking into the fields in which it ought to be operating, in some cases initiating projects that need to be done, because not all the necessary projects come in the form of requests from the outside. A foundation may often need to initiate some of these projects, find the right people to do them and the right organizations to control their doing.

There is no training school for foundation executives that I know of. Training has come about almost by accident. Men are drawn from a wide variety of fields, but chiefly from education. They are, as I know them, a fine group. There are exceptions, of course.

A foundation may operate in one of three ways, or a combination of them. It may be a grant-giving foundation, and most foundations are that. They do not direct operations themselves except preliminary research to explore the possibilities. If so, their problems are relatively simple.

Or it may have an ad hoc staff. It may collect staff for particular projects as it sees those projects necessary, and disband that staff when the project is completed.

Or it may be a full operating foundation which makes no grants. That is true of Twentieth Century Fund, with one or two exceptions. It is currently true of my own foundation and of several others.

In that case the foundation initiates the project, carries it through with its own staff, and has at least a nucleus of permanent staff.

There are various advantages and disadvantages to all these forms of operation. The purpose a foundation has in mind is probably the deciding factor.

In the case of the grant-giving foundation; there is a certain discontinuity. Once the project is completed, it might have been useful to give that little additional push in that field that might have resulted in major accomplishment. But the project is completed, and by the time the trustees meet and the wheels begin to roll again, the opportunity is lost.

On the other hand, the operating foundation sometimes finds that research staff gets so tangled up in committee responsibilities and putting on this extra push I have been speaking about, that a good research man becomes a public speaker and a committeeman, and there are losses there as well.

With respect to the grant-giving foundation, great care must be taken, in my opinion, as to the handling of these grants. Once the grant has been made, the foundation should keep its hands off. It should not attempt to control the findings.

It should take care to select a problem it wishes studied. It should take care to select competent personnel to study the problem. But then in my opinion it should keep hands off; it should not attempt to control the findings or in any sense limit the distribution of those findings when made. It should exercise what we have come to call academic freedom with respect to its grantees.

Mr. KEELE. Might I ask what the practice has been with reference to allowing the grantee complete freedom once the grant has been made. You said that should be their policy. Do you know what the policy generally has been with foundations in that respect?

Mr. ANDREWS. In general that has been their policy. There are degrees, however. Each foundation has a responsibility to see that its funds are not wasted. It does need to follow up its grants to the extent of seeing that the funds are applied to the purposes originally intended.

And there is therefore a very fine line between the follow-up which the foundation ought to do both for efficiency and to guide its own policies in the future, and this academic freedom which I think is important.

Most foundations have come fairly close to what I would define as that line. Others might place the line a little to the right or the left of where I would place it.

Mr. KEELE. In other words, it is not an effort to control the results so much as to ascertain whether or not they have wisely allocated that money, and to avoid waste or obvious waste of their funds; is that not the case?

Mr. ANDREWS. Yes.

Mr. KEELE. It is not an attempt on their part as I understand it so much to arrive at a result or a preconceived goal, but rather merely to police the matter in the question of the wise expenditure of the money, and for their own information for future action; is that correct?

Mr. ANDREWS. Yes.

Mr. SIMPSON. Mr. Keele, I have a question there. I am concerned about this point right here. I just can't conceive that millions of dollars could be spent without their being a mistake made somewhere.

Do I understand that even if a mistake is recognized on the part of the grantor with respect to the use of the money, that they shouldn't interfere once having made the grant?

Mr. ANDREWS. I think we have to define that word "mistake."

Mr. SIMPSON. May I attempt to, to bring to a head what I have in mind.

A grant is made to some kind of a study and the chap who is doing the work turns out to have misrepresented and to be writing some literature which greatly praises the Communist form of government, and the directors of the fund learn that, and they did not intend that.

Would you or would you not think that they should follow through and interfere there?

Mr. ANDREWS. I think in an extreme case of that sort the right to interfere probably should be reserved to them.

Mr. SIMPSON. Then this academic freedom does have a limit?

Mr. ANDREWS. Yes; a practical limit.

Mr. SIMPSON. That's all.

Mr. KEELE. But if they make a mistake in the sense that they see that it is not going to turn out as they had hoped, aside now from the ideological point of view, but if the practical results may not be what they had hoped they would be, so long as the research is carried along the lines they had expected, they probably would not interfere, would they?

Mr. ANDREWS. They should not. Let me give an example. The Ford Foundation is at present financing an experiment in teacher training. People have been very much concerned about teacher training for some years. One group feels that there has been an overemphasis on the technical training of teachers to teach, but not enough emphasis on giving them something to teach. In other words, the courses on educational psychology and the like have been overemphasized.

In the State of Arkansas at the present time the Ford Foundation is financing an experiment whereby teachers receive 4 years of substantially liberal arts education, background information, and 1 year of what amounts to an apprenticeship in teaching.

That is something of a departure from past practice when teachers in training received a majority of courses in the field of technical education itself. It may work, it may not work. I think the Ford Foundation would not have adopted the program if they had not felt that it would work. But I think, too, that if it does not work, they are bound to accept the results that occur, and to carry the program through until there is convincing evidence whether it does or does not work.

Mr. KEELE. Mr. Andrews, the foundations usually have a wide latitude, I gather, from examining their charters, in the activities in which they wish to engage. Will you tell us from your experience and knowledge of the subject the areas within which they have chosen to work so far as the trends are concerned.

Mr. ANDREWS. Various attempts have been made to put dollar values on these fields, and I think that is a mistaken effort. For instance, a foundation might contribute \$10,000 to a laboratory in a college in Tokyo. Now is that a contribution to research or to education or, if it is a medical laboratory, to medicine, or to international relations?

It is obviously all of those things, and where we classify it depends upon the judgment of the person who is doing the designating.

So when we did our survey of foundations, we didn't attempt to put dollar labels on these fields, but we asked each of the foundations to what particular fields they devoted at least 15 percent of either their money or their efforts, in case there were operating foundations. I will give you those figures.

You will recognize that these are percentage figures and that they will run way over 100 percent, because a foundation might have had three or four 15-percent choices in its programming.

We did not include physical sciences in our survey, because our study was called American Foundations for Social Welfare, and we

excluded the foundations devoted solely to the physical sciences. However, you will have the physical sciences discussed by Mr. Bush in a day or two so that that won't be a permanent exclusion, but it is for my figures.

Of the foundations, 335 in number and including most of the large foundations who filled out our questionnaire, 48.7 percent said education was a major interest, a major interest demanding anywhere from 15 percent to 100 percent of their attention. That was the highest.

Social welfare was claimed by 44.8 percent. Social welfare, however, was something of a catch-all. Obviously the foundation that took care of crippled children or administered relief probably used that as its catch-all.

Health, 38.5 percent, and I am certain that the foundations which supported health gave more money to that purpose than the social-welfare group because of examining the names of the foundations concerned and knowing the concentration of their program.

However, these three are the only three important areas selected by any of the foundations—education, health, social welfare.

Minor items: Recreation, 15.2 percent. Many of the community trusts selected recreation, for obvious reasons, since they are community foundations, and care of parks and children's activities, account for a good portion of their funds.

Religion, 11 percent; international relations, about 8 percent; race relations, about 8 percent; government and public administration, about 6 percent; economics, about 6 percent; miscellaneous, some 4 percent, and that covered items that I couldn't include in these other categories, such as public opinion polls and forestry and the like.

It is likewise significant that out of these 335 foundations, 29 were changing programs at the time our questionnaire reached them, so that they could not specify their program. That is an indication of substantial changes in programs to meet what the foundations regard as new needs on the part of nearly 10 percent of the replying foundations.

Mr. KEELE. What have been the chief fields of activity of the larger foundations during the past years since their inception?

Let us say that beginning with the Carnegie Foundation or the Carnegie philanthropies about the turn of the century, what have been the primary fields of endeavor of the larger foundations?

Mr. ANDREWS. If we have to summarize in very broad terms, medicine and health received tremendous emphasis among early foundations, and to a large extent still do, though funds for those purposes are now available increasingly from other sources.

Education from the very beginning was a great money recipient from foundations, and still is. Then in the field of welfare, there has been a swing. In the early days welfare was interpreted as taking care of individual needs, care of the aged, care of widows, children, cripples, and the like.

More recently those needs have been increasingly met out of Government funds and out of contributions of private donors and foundations have increasingly turned to welfare research, to finding the causes of these difficulties.

Perhaps this is the moment for the cliff story which seems to me to illustrate this shift. This is an old story and not mine, though

I have never found where it originated. It is about people living in a village underneath a great cliff. At the top of the cliff there was a busy highway. People were always falling off the highway down to the bottom of the cliff, and the villagers took care of them. They even bought an ambulance to take care of them better, and they were very busy.

One day an old man said, "Why don't you go up to the top of the cliff and build a fence?" But they were so busy taking care of the wounded, their cries were sharp in their ears, that they just didn't have time to get to the top of the cliff and build that fence.

Well, now Government in the Social Security Act and other measures is to a large extent taking care of the people who fall off the cliff, and running the ambulance at the bottom. Increasingly foundations are getting to the top of the cliff and trying to build some of that fence of prevention.

Mr. KEELE. Well, I think that leads naturally into a discussion of what we might call foundation doctrine on methods.

The shift has taken place, as I understand it, in the grants made, or the general trend of the grants made, by the foundations, which you have just indicated in generic terms, and I wish you would discuss with us the foundation doctrine, shall we call it, the risk- or venture-capital theory of philanthropy, in very general terms.

Mr. ANDREWS. At this point I would like to make it perfectly clear that, as far as facts are concerned, they are facts from Russell Sage Foundation studies. We now enter opinion, and the opinions have to be mine. The foundation financed my studies in this area, but I would hesitate to make it responsible for all my opinions. These are individual opinions.

I do think that foundation funds are venture capital, venture capital in the sense that few other funds in society today can claim to be.

The nature of that venture capital has somewhat changed. I have already suggested the shift from relief to research. It is also now important to distinguish between kinds of research, perhaps. Again a few figures.

These are taken from the Steelman report, the Government report Science and Public Policy, by Mr. Steelman, and they concern research funds in the natural sciences. I will try not to give you statistical indigestion and therefore confine them to just 2 years.

In 1930 the Federal Government contributed to research in the natural sciences \$23,000,000. In 1947, excluding Atomic Energy sums, the Federal Government was reported to have contributed \$625,000,000—quite a sharp jump.

In those same years industry contributed, in 1930, \$116,000,000, at that time nearly five times the amount Government contributed. In 1947 the industry sum had quadrupled to \$450,000,000, but was then considerably less than the Federal Government.

Total reported contributions for the natural sciences were in 1930 reported at \$166,000,000; by 1947 to seven times that amount, \$1,160,000,000.

Now, we do not have social-science figures. Unfortunately, no reliable figures seem to be available. I tried hard to collect them, and I have fragmentary figures, but not complete ones, but they are small. The amount spent for research in the social sciences are still minor. There are reasons for that.

Mr. Frederick Keppel, whose book I referred to earlier as one of the interesting books on foundations, said in 1936:

The average man is far from comfortable in the presence of any deep-lying social problems and in no mood to contribute toward their solution by supporting the very steps he extols when they are applied to problems in the natural sciences.

That is an attitude which you all recognize. That is an attitude which Government recognized in the creation of the National Science Foundation. The social sciences deal with explosive issues.

It is difficult for an agency which is supported by taxpayers to enter that field, or for an agency which is supported by contributors to enter that field. For however objective the findings may be, they will be explosive in some of their implications.

There is in American society substantially only one fairly independent source of funds—the foundations, independent in the sense that the money is there, the persons who do the research do not have to worry about future contributions, do not have to shape their findings to please the contributor, do not have to shape their findings because of something that may not be politic.

Perhaps this single example may say what I mean. Let us suppose a professor in a dairy State wishes to investigate the comparative virtues of oleomargarine and butter. If he is in a State institution he will have great difficulty if his findings should happen to favor oleomargarine. Those are problems, practical problems, which research faces in the social sciences, because they are explosive issues.

For that reason I think that foundations perhaps have an extra mandate, an extra duty to enter the fields where money is lacking, for obvious reasons which I have suggested. It is a dangerous mandate, of course.

The social sciences are now in the Galileo stage when it is not comfortable, when it may be dangerous, to announce that certain things move which were thought stationary before. But if they do move, it is time we found it out. And perhaps the foundations can with their venture capital contribute toward finding out the explosive facts of how to get along with each other, how to get along with other nations.

There are also certain responsibilities in setting up pilot projects in areas that are occupied perhaps by Government or by long institutionalized organizations to see if those are being run efficiently, to discover new methods. This needs venture capital.

Such capital should not, in my opinion, be applied to long-continuing projects simply for their support. It should not be applied to meet deficits, to meet ordinary running expenses. There isn't enough of it. As I tried to indicate, it really is pretty limited. It is unusual money in the freedom that it now has, in the freedom that I hope it always will have. It is venture capital. It should be used for the long-term projects, the projects which may fail.

I would like to read a statement from the Ford Foundation report of its study committee. I quote:

The problems and opportunities of our time arise out of man's relations to man rather than his relations to the physical world.

As to the difficulties in this field of research, perhaps we might take the testimony of a commercial corporation, the du Pont Co., in a recent statement to its stockholders about its own research:

As in games of chance, the problem really is to spread the company's research risks over a great many possible winners while retaining sufficient reserve in funds and manpower to increase the stakes when the deal looks good. * * * In the end, the winning project must more than make up for all the losses or the entire game must be abandoned. * * * The odds are set by a combination of factors: The wisdom of management, the inventive genius of the scientists, the dollars and facilities available for research. There is no advance guaranty then, that 1 in 20 or even 1 in 40 projects will pay off. Rather the test of successful research is management's ability to fashion odds under which winnings will exceed losses by a profitable margin.

If a corporation designed for the making of profits is willing to take odds at 1 in 40, I think you can see some of the difficulties facing research in so difficult a field as the social sciences.

I think that foundations would be ill-advised to pick only the blue chips. Indeed, I hope that this investigation may clarify the areas in which foundations work and the areas in which they might work. I hope that neither this investigation nor any other current activities will make foundations so sensitive to criticism that they will return to studies of a common cold, much as we need a cure for that.

Mr. SIMPSON. Mr. Keele, I wonder if I might ask a question.

Mr. ANDREWS. Yes, sir.

Mr. SIMPSON. I don't think you meant to say that Congress should impose a limitation upon the use of foundation funds.

Mr. ANDREWS. Should not?

Mr. SIMPSON. They should not.

Mr. ANDREWS. They should not impose controls over the use of the funds; accountability, yes.

Mr. KEELE. I am going to ask before we finish, if I may say so, Mr. Simpson—

Mr. SIMPSON. How is that?

Mr. KEELE. I am going to ask Mr. Andrews to tell us the position of his own foundation with reference to governmental regulation or control.

Mr. SIMPSON. I may have misheard him, but I think that he said he hoped before these hearings ended we would clarify the methods under which foundations should function.

Mr. KEELE. I thought so, too. I did not understand that.

Mr. SIMPSON. I want you to clarify that if you do not mean that.

Mr. ANDREWS. I did not mean that at all, Mr. Simpson, and thank you for calling attention to a misunderstanding.

What I did say was I hoped that out of these hearings we should get a broad picture of what foundations are doing and might do so that they would have a better basis for judgment as to the areas of need, and it was my hope that out of this broad picture they would not return to the so-called "blue chips" studies which everyone is for, but for which money is available elsewhere; but that they would continue to devote this relatively small sum at their command for the long-term, difficult projects that I have been discussing.

Mr. KEELE. Does that clarify it, Mr. Simpson?

Mr. SIMPSON. Yes.

Mr. KEELE. I think so, too. It was a little misleading as you put it.

Mr. Andrews, is it not a fact that there was some apprehension expressed, and otherwise, at one time lest mere investigation of the activities of foundations, such as have been undertaken by this committee, might conceivably tend to drive it, the venture capital,

back into the "blue chips" rather than into the areas of experimentation, pioneering, perimeters, and so forth? Is that not true? Has not that fear been expressed?

Mr. ANDREWS. That fear has been expressed.

Mr. KEELE. I take it you were touching on that when you said that you would hope that we could clarify the areas within which foundations were working—I believe you used some such language as that but I am sure that, as Mr. Young, I think, the head of your foundation, expressed to me one day, they did hope that this investigation would not frighten or tend to frighten the trustees into retreating into safe investments, as it were. Isn't that something of the theory that we were talking about?

Mr. ANDREWS. That is a fair expression of it, yes.

Mr. KEELE. In other words, I think it was expressed well, was it not, in Mr. Embree's article in Harper's in 1949 on Timid Billions?

Mr. ANDREWS. Timid Billions?

Mr. KEELE. Where he said that the metier of the foundations was really to use this capital in experimenting in the frontiers, shall we say, of human knowledge, breaking through the perimeters, rather than to aid that which was already known to be sound.

I wish you would talk to us a little about that, that philosophy of the "blue chip." You have touched on it, but I do not know that you have made it entirely clear, at least in my mind, as to the real value of foundations, as it is viewed by the people most interested in foundations, that is, in operating them.

Mr. ANDREWS. Perhaps that is all involved in our question of how to make foundation funds go farthest.

Mr. KEELE. All right.

Mr. ANDREWS. The foundation is the only giver in the world who often has the gift of eternal life, if that be a gift, and he spends all of his time in trying to learn how to give effectively.

Now, giving is a difficult business. Mr. Rosenwald once said that he found it "nearly always easier to make \$1,000,000 honestly than to dispose of it wisely." It really is a difficult business.

I said earlier today that people do come before my desk asking advice on how to spend \$50,000, \$100,000, \$2,000,000, and it is not a task that I can accomplish with much satisfaction to myself. It is difficult to advise them. That is the reason I asked the trustees to let me continue with studies in this field.

But the foundation does accumulate experience. The same trustees do not go on forever, but the board does not wholly change; what they have learned in the past is available for their future knowledge. Out of this experience they have learned to make relatively small sums go far.

They have gained contacts in various fields which enable them to find key personnel to develop projects which those without the experience would not be able to even discover; so that the first reason for foundation funds going pretty far, in my opinion, is because they have experienced administration.

Secondly, pilot projects and demonstrations—I have touched on that. Here a foundation might even do any of these "blue chip" things. It might set up a demonstration hospital, but it ought to do it only once or only enough times to prove that certain processes are good

or bad. Then it should abandon the project, and let it be carried on by other sources of funds.

We have a good example of this—I almost said—double standard except for the unfortunate implications of that word, in public and private higher education.

Public educational institutions do a grand job. I should hate, however, to see all of our institutions of higher education public. They need the variety, the diversity, the standards-setting, the mistakes, the successes, the ingenuity, the creative ability of the private institutions.

Similarly, the foundation can act as an exploratory standard-setting institution, but it must desert its experiment when the experiment succeeds. That is one of the anomalies of working for a foundation. You no sooner thoroughly succeed in a project than the foundation abandons it, and properly.

Mr. KEELE. I assume it moves on to other fields in which it will attempt to repeat the process of setting up a pilot project demonstrating the value of it, and then allowing other authorities to take over?

Mr. ANDREWS. Yes.

Mr. KEELE. Was that not really the way in which the Rockefeller philanthropies worked in demonstrating the value of worm control and treatment?

Mr. ANDREWS. Yes; approximately.

Mr. KEELE. Leaving it then for the local, State, and Federal Governments to follow through once they had demonstrated the value of the pilot project.

Mr. ANDREWS. Yes.

Mr. KEELE. And the same with erosion control, and various projects. In fact, they have followed that method pretty consistently, have they not, Mr. Andrews, that method?

Mr. ANDREWS. They seldom engage in a project in which there is not the prospect of local cooperation and another agency taking it over finally.

Mr. KEELE. I assume the Ford experiment in Arkansas is directed along the same lines; is it not? If it can be demonstrated there that the teacher training program they have is a good program, they will then leave it to the State to follow through, and hope that other States will adopt such a program.

Mr. ANDREWS. I am sure that is their intent.

Mr. KEELE. It is not their idea of staying there permanently.

Mr. ANDREWS. No, sir.

Another way that foundation funds are spread is one mentioned this morning, the conditional grants. Dr. Hollis gave you several examples of that. Some things can be said both for and against conditional grants, and there are various types of conditional grants.

One form of conditional grant I think he did not mention this morning is the one that simply says, "If we contribute \$10,000 your other contributors must contribute \$20,000," conditional in these terms. "Once the \$20,000 has been raised our \$10,000 will make it \$30,000." That is a practice which many individual donors and many foundations have tried out with a view to expanding the influence of the moneys they are able to apportion. Some things can be said for it and some things can be said against it.

It does mean that the foundation contribution, sometimes a small part of the whole, has an influence on the direction of a development out of proportion to the money value contributed. That could be bad—the influence is there.

Then, the other type of conditional grants are those which set up standards, and Dr. Hollis very properly mentioned the very famous one of the Carnegie pensions.

Another might be the Carnegie Libraries. Mr. Carnegie did not give books to local communities, he gave a library building. He did not give library buildings without strings attached. Before the building was given a community had to promise out of tax funds or other sources a certain definite sum for annual maintenance of that library, and for book collections. It was a conditional grant. By the time of his death in 1919, 2,811 library buildings had been constructed at a cost of \$60,000,000 in conditional grants.

Then, some foundations act on the principle that the most effective way to spend money is not to concentrate on particular projects but to find and support superior individuals.

Mr. Carnegie had that idea. He said the thing to do is to supply "ladders upon which the aspiring can rise." His library program was part of that; scholarship programs are part of that. But beyond supplying those ladders on which the aspiring can rise, foundations are eager to find individuals of unusual competence for the projects in which they are interested, and such individuals are scarce. Training programs have to be instituted in many cases. The ideal arrangement is to find the competent individual, give him freedom and give him tools. In the opinion of many foundation executives, that is the most useful employment of their funds.

These are various ways in which funds of the foundations are amplified and given social utility.

Mr. KEELE. Mr. Andrews, would you give us the view of Russell Sage Foundation with reference to governmental regulation? I believe it was well set forth in the answer to the questionnaire which the committee submitted to you, and I would like to have you read that, if you would. I assume that is official, that is the view of Russell Sage Foundation on that point; is that right?

Mr. ANDREWS. Yes. The questionnaire was prepared by a few of us in the foundation, gone over by the executive committee and seen by the whole board of trustees.

Mr. KEELE. Would you read that section for us.

Mr. ANDREWS. I would be very glad to. This really begins with question G-4, for those familiar with the questionnaire. We say, in answer to your questionnaire:

Foundations and charitable trusts receive from society certain privileges of which tax exemption is the most tangible. In return for such solid advantages, and also in view of the fact that the ultimate beneficiary is society itself, however particularly the gift may be directed, it seems wholly proper that the foundation or trust should be held accountable for its stewardship. Society should have the means of protecting itself against the theft, squandering or unreasonable withholding of this promised benefit.

Government regulation is undesirable except insofar as necessary to achieve the degree of accountability suggested above. This need for public accountability should not result in governmental control of program. Self-policing would not seem adequate for the very small minority of small "foundations" which may be set up for tax or other personal advantages. Abuses proved against such

foundations might injure the reputation and curtail the freedom of action (their most crucial asset) of the many legitimate foundations.

A program to insure accountability for all foundations might include:

1. A registry of all foundations and charitable trusts, presumably through uniform legislation in all the States, under the laws of which such organizations are usually originated. The registry should be public, segregated, and kept current.

2. Compulsory annual reporting, including a full financial statement and a description of activities. These reports should be open to the public. To some extent this purpose is already accomplished on the Federal level through compulsory filing of Form 990a.

3. Provision for regular review of such reports by a public authority possessing power to correct abuses. Presumably such power resides in the States, which were the constituting authorities, and would be exercised through the office of the respective attorneys general.

These measures do not envisage control of program, which is regarded as unwarranted and dangerous. The mere existence of power to divert such funds into only such channels as might receive wide public support at a given moment would both discourage new gifts of thoughtful donors, and threaten the essential ingredients in the success of the foundation movement, freedom to experiment.

Mr. SIMPSON. Mr. Andrews, I would like to review the question that I was talking about, phrasing it this way: In your experience, to what extent, if at all, does Government influence the granting of funds by any foundation?

Mr. ANDREWS. The influence is in several directions, I am sure. No. 1, the things that Government does the foundation does not need to do except on a pilot project basis.

No. 2. There is another use of foundation venture capital which I did not mention before, and I think ought to be mentioned because it does deal with Government. In many cases Government programs arouse a good bit of discussion as to how efficient or how desirable they are. The WPA might be an example. It is difficult to arrive at a survey of such a program which people will take seriously if it is done either by a taxpayers' league which is interested in cutting down on taxes or by a Government agency which may be interested in defending the status quo.

In that area foundations can usefully serve in making such surveys of public administration.

Mr. SIMPSON. In that latter area, where Government may be interested in a program but Congress has not given it the money to conduct certain investigations which the officials may desire, do I understand that they may approach a foundation to have that survey conducted?

Mr. ANDREWS. Yes.

Mr. SIMPSON. To what extent does that take place?

Mr. ANDREWS. Let me give you an example.

Mr. SIMPSON. Let me add just one thing. Congress, having refused to grant that department of Government authority to conduct the said investigation, if those officials go to a foundation and seek to have the foundation make that investigation, I would like to know that.

Mr. ANDREWS. I would have difficulty in giving you a specific example there. I think that those officials in private capacity could go to a foundation and say, "This is an area which we think needs study; Government is not now able to undertake it. Will you?"

Then it would go on its own. The sponsorship of Government officials would not greatly influence the decision of the foundation. It would be the virtues of the project itself.

Mr. SIMPSON. Is it true that as Federal moneys are increased for the research work in the social- or the natural-science field the area in which the foundations may do original work is curtailed?

Mr. ANDREWS. That might be true if research were not itself an expanding universe, expanding so fast that any attempt to keep up with it must fail.

Mr. SIMPSON. If it is done at the Government level, I mean, as indicated by these vastly increased funds for investigation into the natural-science field between 1937 and 1947, it would seem to me that by this expansion we limit the area in which the foundations can do original research.

Mr. ANDREWS. I think we might use a different figure of speech there and say that the area of desired research is a large virgin territory, and as the Government occupies certain areas of it foundations are able to occupy still other areas, but that there remain vast important areas that lie open for discovery.

Mr. SIMPSON. Well, the area that Government may go is limited by constitutional limitations; you mentioned political limitations; there are others; I do not recall them. Consequently, Government, having expanded its expenditures within the area where it is permitted, those others are the highly controversial fields, and the effect of Government greatly increasing its expenditures is to force the foundations into these controversial fields.

Mr. ANDREWS. I think that is a point, to the extent that the non-controversial fields are taken care of either by Government or by private philanthropy. Foundations have even more of a mandate to go into the controversial fields.

Mr. SIMPSON. Then, if that is true, Government itself can be forcing the foundations to enter these controversial fields, which many people object to as being too far to the left.

Mr. ANDREWS. I would rather say that the Government occupancy of those other important fields gives the foundation some wider latitude for choice.

Mr. SIMPSON. It gives them what?

Mr. ANDREWS. A wider latitude for choice.

Mr. SIMPSON. It gives them a much narrower area unless they want to duplicate what Government is doing.

Mr. ANDREWS. Let me put it this way: Cancer is such a dreadful disease that quite a few foundations were organized solely for investigation of or care of cancer patients. If and when the Public Health Service and the American Cancer Society and individual contributors contribute all the funds that can usefully be employed in either taking care of patients or in research in cancer, then the foundations now set up with a primary concern for cancer will logically be forced out of that field and will have to look for new areas; yes.

Mr. SIMPSON. You mentioned "blue chips" awhile ago. Can't we agree that Government can force the foundation away from the "blue chip" field and into still more theoretical and experimental areas, if Government should take it over?

Mr. ANDREWS. Yes; if all the "blue chips" were taken over by Government.

Mr. SIMPSON. They are going to take over only the ones that the Constitution and the political considerations and other things permit. It seems to me that foundations are gradually being forced, so far as

original research is concerned, to go into that marginal area that Government cannot do because of political considerations.

Mr. ANDREWS. I would complain only about the word "forced" there. There still are vast numbers of projects that are in the "blue chip" areas, which foundations can take if they want to, and for the foreseeable future that will remain the case.

Mr. KEELE. As an example of that, they could give all their money to schools or colleges and universities. They consider those "blue chips."

Mr. ANDREWS. Scholarships.

Mr. KEELE. Or "blue chip" investments.

Mr. ANDREWS. Yes. At present it costs about \$2,000 a year to put a boy through college. Now, foundations could spend their whole income each year from here on into the foreseeable future in cutting that down to \$1,000 per year, and thereby broadening the basis for democratic education.

Mr. SIMPSON. Of course, I was referring to the area of research work.

Mr. ANDREWS. Yes.

Mr. SIMPSON. In those areas, as Government expands, it seems to me, they limit the area that the foundation can go into for pure research unless they duplicate the Government.

Mr. ANDREWS. Again, as Dr. Bush is sure to tell you, the opportunities for research in noncontroversial fields are almost endless. Well, we have been talking about atomic research. The Government is doing quite a job there, but there are still areas in atomic research which are being done privately. The University of Chicago has a very large project in nuclear studies for which they are collecting considerable sums.

Mr. SIMPSON. What I am trying to get to is that I think we are in the foundations recognizing an area of independent mind which it has been doing in a field that Government cannot get into, and I think it desirable that the foundations be permitted to continue that, to which I add that, I think, as Government follows along behind the foundations, where experimental work has proved beneficial, and takes it over, that they narrow the field down—and this is the end of it—so that we can expect more and more controversy if the foundations continue to delve into the experimental field left open to them.

I think that the foundations are sort of advance agents for progress as they get into new fields and fulfill their duty, which devolves upon them because they have an independent source of funds.

Mr. ANDREWS. I think I would agree with you.

Mr. SIMPSON. Over which Government has no control, and over which they should not.

Mr. ANDREWS. I think I would wholly agree with that statement, Mr. Simpson.

Mr. SIMPSON. That is all, sir.

Mr. HAYS. Mr. Forand?

Mr. FORAND. No questions.

Mr. HAYS. Mr. Goodwin?

Mr. GOODWIN. No questions, Mr. Chairman, but I do feel that I would like to commend Mr. Andrews for a very masterly presentation.

Mr. ANDREWS. Thank you, sir.

Mr. HAYS. I would like to pursue one point that Mr. Simpson has dealt with. That has to do with this overlapping area of Government and private-agency functioning. I suppose we are agreed, in the light of our history with this problem, that Government should and will stay out of the controversial area, meaning chiefly—you used the expression “the explosive type” of social science studies. There are certain types of research, you might say, that get into that category.

Are you familiar, for example, with the social studies made by the Bureau of Agricultural Economics some years ago?

Mr. ANDREWS. Not in detail.

Mr. HAYS. I think that is a good illustration of the point you made, and probably our experience there is helpful—and I was on the legal staff of the Department of Agriculture—it seemed to me, as a layman, that those studies were rather objective, and yet Congress said, “This gets into a field that fails to recognize the political limitations,” and prohibited those studies.

Well, I accepted that as a sound governmental policy, but it left this vacuum that you speak of, and I am just wondering if we do not need a warning in our report—I would like your judgment on it—if we do not need to be on guard against the doctrinaire approach which erects too strong a wall between Government functioning and private-agency functioning, so that we stop progress by failing to recognize the interrelationship of the two. That is a broad statement, but you see the problem that I am getting at.

I think the Ford Foundation project in Arkansas is a good illustration of the fact that if you get into one of these research ventures, these experiments that are designed to aid teaching, for example, you must have a degree of Government action and Government decision. In that case it was the State government. The State of Arkansas had to agree with certain things, and they did it through their official agencies.

Your statements about the communities, for example—in any number of cases there are decisions officially made by political units that gear Government to the foundation and private-charity projects. That is true; is it not?

Mr. ANDREWS. I think it is highly important that foundations do cooperate with Government in the ways that you indicate when boundaries appear in the field to which Government can extend.

Mr. HAYS. And have we not come to that place really in 1952 where we have got to explore that problem and find if possible the right basis? This is all anticipating legislation that is something more than regulatory; that is what I am getting at. I am thinking of a recognition of the need for positive and cooperative action rather than just restrictive action; private enterprise restricting Government, Government restricting private enterprise. This is, perhaps, a bit philosophical, but I would like your views and your advice on that point.

Mr. ANDREWS. I think that positive and cooperative action is highly desirable. I think it should not be imposed from the top. Perhaps one or two examples may clarify it.

During the depression, communities all over the United States gave relief to the unemployed and the starving. They adopted various methods. They had not looked back on previous depressions, and they made all over again the mistakes they made before.

At the request of various communities and various State relief agencies and, perhaps, the Federal Government—I have forgotten—the Russell Sage Foundation did several studies. One of them was entitled “Emergency Work Relief.”

It studied the programs in 26 different types of communities. It went back to experience in previous depressions. A report was done, speedily put into the hands of relief directors in all these communities so that they could benefit from this combined experience. No Government agency was at that moment ready to undertake such a job. We did it at their suggestion.

Mr. HAYS. I am thinking of a very fine experience we had with aid for some of the stricken areas of Europe right after the war, when CARE did such a good job.

Now, we provided in one of the bills ocean freight at Government expense, and I thought that was very wise because, with \$4 million, something like \$75 million worth of food was sent; but the \$75 million were voluntarily given, and that had so much more significance in terms of the recipient, you see—I mean, in terms of their friendly and grateful reactions, their attitude toward America than Government largesse—and I think that is the example really that I want to use as an illustration of Government and private charity working together.

Mr. ANDREWS. I think that is a splendid example.

Mr. HAYS. I do not want to prolong this, but I would like to get to the Arkansas experiment for just a moment, to ask you at what stage that has advanced now. You spoke of the 4-year liberal-arts program. Is that being inaugurated this fall; can you tell us?

Mr. ANDREWS. That is my impression; but, without the documents before me, I would not like to state it as a fact.

Mr. HAYS. The Ford Foundation project in Arkansas has attracted considerable attention. It is experimental; is that right?

Mr. ANDREWS. It has attracted a great deal of attention; yes.

Mr. HAYS. Mr. Keele, do you have any other questions?

Mr. KEELE. I do not have any further questions.

Mr. HAYS. Dr. Andrews, we are very grateful for your very helpful testimony. It is an extremely valuable contribution.

The committee will be in recess until 10 o'clock in the morning.

(Whereupon, at 3:50 p. m., the committee recessed to reconvene at 10 a. m. Wednesday, November 19, 1952.)

