SELECT COMMITTEE TO INVESTIGATE FOUNDATIONS

FINAL REPORT

OF THE
SELECT COMMITTEE TO INVESTIGATE FOUNDATIONS AND OTHER ORGANIZATIONS

(Pursuant to H. Res. 561, 82d Cong.)

JANUARY 1, 1953.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

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SELECT COMMITTEE TO INVESTIGATE AND STUDY EDUCATIONAL AND PHILANTHROPIC FOUNDATIONS AND OTHER COMPARABLE ORGANIZATIONS WHICH ARE EXEMPT FROM FEDERAL INCOME TAXATION

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LETTER OF TRANSMITTAL

House of Representatives,

Hon. Ralph R. Roberts,
Clerk of the House of Representatives,
Washington, D. C.

Dear Mr. Clerk: I submit herewith the final report of the Select Committee to Investigate Foundations and Other Organizations.

Brooks Hays, Acting Chairman.
SELECT COMMITTEE TO INVESTIGATE AND STUDY EDUCATIONAL
AND PHILANTHROPIC FOUNDATIONS AND OTHER COMPARABLE
ORGANIZATIONS WHICH ARE EXEMPT FROM FEDERAL INCOME
TAXATION

JANUARY 1, 1953.—Committed to the Committee of the Whole House on the
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Mr. Hays of Arkansas, acting chairman for the Select Committee
To Investigate and Study Educational and Philanthropic and Other
Comparable Organizations Which Are Exempt From Federal In-
come Taxation, submitted the following

FINAL REPORT

[Pursuant to H. Res. 561, 82d Cong.]

COMMITTEE REPORT

Report of the select committee created by House Resolution 561,
Eighty-second Congress, second session, to investigate and study
educational and philanthropic foundations and other comparable
organizations which are exempt from Federal income taxation.

The committee was saddened by the death, on December
24, 1952, of its chairman, Hon. E. E. Cox, of Georgia. While
he did not have the opportunity of examining this report in
its final form, the draft of the first half of the report was read
to him by the counsel for the committee on the evening of
December 22 and he approved it. The draft submitted to
Mr. Cox, in manuscript, was adopted by the committee
almost unchanged and is incorporated in this report in
practically the identical form in which it was submitted to
the chairman.
This committee was created and its powers and duties were defined by House Resolution 561, Eighty-second Congress, second session, adopted April 4, 1952. By the terms of the resolution the committee was—

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

and to report not later than January 1, 1953, to the House of Representatives, or to the Clerk of the House if the House be not then in session, the results of its investigation and study together with such recommendations as it deems advisable.

The sum of $75,000 was appropriated for the use of the committee by House Resolution 638, Eighty-second Congress, second session on July 2, 1952. Of this sum approximately $25,000 will be returned unexpended.

In the course of its investigation the committee has (1) sent questionnaires to more than 1,500 organizations; (2) interviewed personally more than 200 persons deemed to possess pertinent information; (3) communicated by letter or telephone with approximately 200 additional persons, many of whom have established themselves in positions of achievement and competence; (4) heard the testimony of some twoscore persons; (5) received the prepared statements of approximately 50 other persons deemed to have some knowledge of the subject; (6) studied and analyzed thousands of pages of answers of foundations submitted in response to the questionnaires; (7) studied the available literature on foundations. The committee's findings and recommendations are based upon a consideration of the information and data assembled in the manner and by the methods stated.

FINDINGS AND CONCLUSIONS

1. NUMBER OF FOUNDATIONS, THEIR AGGREGATE CAPITAL AND INCOME

The committee was unable to arrive at any definite figures relative to the number of foundations, their aggregate resources, income, and expenditures. The 1950 Cumulative List of Organizations published by the Bureau of Internal Revenue lists more than 30,000 tax-exempt organizations. The number of these which can be classed as foundations varies according to the definition of a foundation. Estimates ranged as high as 32,500 under the broadest possible definition. For those organizations having a permanent endowment of $50,000 or more and embarked upon a program of philanthropic giving the estimate was slightly more than a thousand with total assets of approximately $2,600,000,000 and expenditures of approximately $133,000,000 in 1950. Informed sources estimate the number of foundations having assets of $10,000,000 to be between 60 and 100. This estimate excluded colleges, universities, and religious organizations. The committee was unable to obtain an Executive order, which would have permitted an examination of the returns required of tax-exempt organizations. A constructive effort which promises
to throw much light on these questions is now being made by the American Foundations Information Service, the results of which will be published in 1953.

It must be borne in mind that foundations range in size from the giants, such as the Ford and Rockefeller Foundations with assets of half a billion and 300 million, respectively, to those with no, or practically no, permanent endowment but with incomes from annual or sporadic contributions of a few hundreds or a few thousands of dollars. The committee knows of no manner in which even a reasonably accurate estimate of the aggregate assets, annual income, and expenditures of foundations can be obtained at the present time without (1) an Executive order permitting an examination of returns now filed with the Bureau of Internal Revenue, pursuant to the provisions of the tax laws, or (2) examination of these returns in the offices of the various directors of internal revenue where the returns are filed. The committee has received estimates which it considers reliable to the effect that all foundation expenditures aggregate only 3 cents of the annual American philanthropic dollar.

2. RATE OF GROWTH OF FOUNDATIONS

Despite the fact that there are notable foundations in foreign countries it may be said that modern foundations are confined largely to the United States and that they are the products of the last 50 years. While there has been a tremendous growth in the numbers of small foundations in the past 10 years it is unlikely that existing tax levies will permit the creation by individuals or families of large foundations (in the sense that the Ford, Rockefeller, and Carnegie Foundations are large) after the next 10 or 15 years. The small foundations which have mushroomed in the last decade are largely vehicles for the distribution of permissible tax-deductible philanthropies of modestly well-to-do individuals and families. There is a significant ground swell in the area of corporation giving with promise of the establishment of considerable numbers of sizable foundations to be established in the future by business corporations. Another significant development is to be found in the community trusts or foundations such as those in New York, Cleveland, Boston, and Chicago.

3. THE ROLE OF THE FOUNDATIONS IN MODERN SOCIETY

Foundations are almost as old as civilization. They were understood and used by the Egyptians, the Greeks, and the Romans. In one form or another they have played an important part in the development of the civilization of Western Europe. They have had their ups and downs. They have been regulated, abolished, reestablished. They remain today an important and vital force in American life and their influence is felt in Europe, Asia, and South America. While the important part they play and have played in palliative measures—that is, in relieving existing areas of suffering—must not be overlooked, their dominant and most significant function has been displayed in supplying the risk or venture capital expended in advancing the frontiers of knowledge. The large foundations are peculiarly well suited to play this role and it is doubtful if any other agency
could perform their part as well as they have performed and are performing it. With trained professional staffs drawing upon the knowledge gained through decades of experience, with the ability to attract and hold men of great competence both in their governing boards and their staffs, with large sums of money to back their judgment and with complete freedom to spend the money on calculated risks, they are able to do that which neither government nor individuals, nor even small foundations, could or probably should attempt. The record of their accomplishments gives ample proof of their value to civilization.

While the impact of the foundations upon modern society cannot be accurately gaged, it is safe to say that they have rendered, great and significant services in many fields. Their contributions in the field of medicine and public health are too well known to require enumeration. The results of their campaigns against hookworm and yellow fever have been repeatedly told and extolled until they have become almost legendary. Less well understood but of great importance is the part played by foundations in raising the level of education in our colleges and universities, and, most strikingly, of elevating medical education in this country to a position of world eminence. In the field of the natural sciences, their contribution has been equally significant. In these days when an awareness of the needs for national security is uppermost in our minds we cannot fail to acknowledge our debt to the foundations for the assistance and support they have given to all branches of the natural sciences. Of recent years the foundations have given increasing support to the social sciences. This area of endeavor might be designated as the study of man’s relationship to man. While the field has often proved controversial it is entirely possible that in a time when man’s mastery over the physical sciences threatens him with possible extermination the eventual reward from the pursuit of the social sciences may prove even more important than the accomplishments in the physical sciences.

But these are not the only fields in which the foundations have given support and aid. They have pressed forward in the fields of international relations, public administration, and government, the humanities, race relations, the arts, adult education, recreation, and economics.

4. Present and Future Need of Foundations

We have referred briefly to the past accomplishments of foundations and the importance of their role in modern-day life. It appears that the present need for foundations is even greater than it has been in the past and that there is great likelihood that the need will prove an increasing one in the future. Despite the vast sums being poured by Government into the various fields formerly occupied by foundations and into fields in which the foundations and Government are cotenants or at least coadventurers, the need for the basic research so largely supplied and supported by the foundations continues to increase. Every new headland of human knowledge which is won opens up new vistas to be explored. As each mountain peak of discovery is scaled, vast new areas are laid open to exploration. Aside from the pressing needs of national security there are ever-widening
and lengthening avenues of knowledge that require research and study of the type and kind best furnished or assisted by foundations. The foundation, once considered a boon to society, now seems to be a vital and essential factor in our progress.

On all points thus far raised there has been such a mass of provable data and such a unanimity of opinion among informed persons that the committee has no hesitancy in presenting its statements without qualification or reservation except where reservations were specified. It now approaches problems on which widely divergent views are held by responsible and informed persons. On some points the committee has little doubt; on others considerable.

5. CRITICISMS OF FOUNDATIONS

The committee has striven to give careful attention to the major criticisms leveled at foundations. These criticisms have come from persons, groups, and organizations of widely different backgrounds and from all parts of the country. While some few complaints have been motivated by personal grudges or fanciful imaginings, the great proportion of them have come from well-meaning and sincere individuals or organizations whose integrity, loyalty, and patriotism cannot be questioned. The committee has earnestly endeavored to give sympathetic consideration to every communication, written or oral, to follow every lead which offered even slight promise of revelation, to acknowledge all letters and telegrams and to answer those where answers could be given. These complaints and criticisms, viewed broadly, raise the following questions:

1. Have foundation funds been diverted from the purposes established by the founders?
2. To what extent have foundations been infiltrated by Communists and Communist sympathizers?
3. Have foundation funds been channeled into the hands of subversive individuals and organizations, and, if so, to what extent?
4. Have foundations supported or assisted persons, organizations, and projects which, if not subversive in the extreme sense of that word, tend to weaken or discredit the capitalistic system as it exists in the United States and to favor Marxist socialism?
5. Are trustees of foundations absentee landlords who have delegated their duties and responsibilities to paid employees of the foundations?
6. Do foundations tend to be controlled by interlocking directorates composed primarily of individuals residing in the North and Middle-Atlantic States?
7. Through their power to grant and withhold funds have foundations tended to shift the center of gravity of colleges and other institutions to a point outside the institutions themselves?
8. Have foundations favored internationalism?
9. To what extent are foundations spending American money in foreign countries?
10. Do foundations recognize that they are in the nature of public trusts and are therefore accountable to the public or do they clothe their activities in secrecy and resent and repulse efforts to learn about them and their activities?
11. Are foundations being used as a device by which the control of great corporations are kept within the family of the foundation's founder or creator?

12. To what extent are foundations being used as a device for tax avoidance and tax evasion?

In dealing with these questions the committee recognizes all too clearly that which must be apparent to any intelligent observer, namely, that it was allotted insufficient time for the magnitude of its task.

Four successive royal commissions sat over a period of 18 years while engaged in the task of investigating and reporting on 28,880 charitable trusts existing in England well over a century ago. This committee was given a similar task and directed to complete its work in the less than 6 months remaining after funds were appropriated for the work. It is obvious that the committee could not investigate thousands of organizations within the limitations of the time allotted. Expediency compelled focusing attention on a small segment of the whole. Individual attention was given to a small number of the largest foundations, but even here investigation could not be made with the thoroughness the committee desired. For example, the Rockefeller Foundation alone has made almost 30,000 grants—approximately 6,000 of which were in the form of scholarships awarded to individuals. The committee has endeavored to make as thorough a survey as time permitted. Its findings and conclusions must, under the circumstances, be general rather than specific. It has endeavored to bring into this inquiry such information as it could assemble and to apply to this information, incomplete though it is, its best judgment. With these observations the committee will attempt to deal with the following major questions raised by criticisms received:

1. Have foundation funds been diverted from the purposes established by the founders?

So far as we can ascertain there is little basis for the belief expressed in some quarters that foundation funds are being diverted from their intended use. There have been instances of such diversion but we believe that the criticism is unwarranted in the main. It has been suggested that the smaller foundations, particularly those established to receive the allowable annual deductions of an individual or family and having no endowment other than that accumulated from yearly contribution from the individual donor or his family, have sometimes been used to take care of members of the family or of family pensioners by placing them on the payroll as employees or by granting to needy relatives scholarships; if done by outright gift of the individual creating the foundations, these would not be deductible contributions. That this is possible must be conceded. That it is a widespread practice is doubted. Nevertheless it is a possible abuse which should be guarded against. The committee believes that public accounting would go far toward eliminating such abuses.

2. To what extent have foundations been infiltrated by Communists and Communist sympathizers?

3. Have foundation funds been channeled into the hands of subversive individuals and organizations, and, if so, to what extent?

Questions 2 and 3 will be considered together. There can be no reasonable doubt concerning the efforts of the Communist Party both
to infiltrate the foundations and to make use, so far as it was possible, of foundation grants to finance Communist causes and Communist sympathizers. The committee is satisfied that as long as 20 years ago Moscow decided upon a program of infiltrating cultural and educational groups and organizations in this country, including the foundations. The American Communist Party, following the program laid down in Moscow, went so far as to create a subcommittee of the Agit-Prop (Agitation-Propaganda) or Cultural Commission which gave specific attention to foundations. The aims were to capture the foundations where possible, and where this proved impossible, to infiltrate them for the purposes (1) of diverting their funds directly into Communist hands, and (2) procuring financial assistance for projects and individuals favorable to communism while diverting assistance from projects and individuals unfavorable to communism. A few small foundations became the captives of the Communist Party. Here and there a foundation board included a Communist or a Communist sympathizer. Occasionally a Communist managed to secure a position on the staff of a foundation or a staff member was drawn into the Communist orbit. Our investigation, hurried by lack of time, indicates that very few actual Communists or Communist sympathizers obtained positions of influence in the foundations. However, there are some unhappy instances where the committee is convinced infiltration occurred. There remains the ugly unalterable fact that Alger Hiss became the president of the Carnegie Endowment for International Peace. And this despite the fact that his nomination and election came about through the efforts of men of proven loyalty and broad experience in public affairs.

So far as the committee can learn, during his term as president of the Carnegie Endowment, Hiss took no official action to further the Communist cause.

There is also the indisputable fact that Frederick Vanderbilt Field became the secretary of the American Council of the Institute of Pacific Relations. The whole unhappy story of the IPR, which was largely supported by foundation funds, has been so fully revealed by the investigation of the McCarran committee that there is no need to make further reference to it here.

There have been other less dramatic incidents, few in number but startling in their implications. That the Communists succeeded in obtaining from the foundations financial aid and assistance for numerous members and sympathizers seems conclusive to the committee. In the aggregate, the number of such grants and the amounts involved are alarming. Proportionately, when viewed in the light of the total grants made, they are surprisingly small.

Despite the fact that in all but a very few cases these unfortunate grants were made prior to the time that the individual grantees were exposed by duly constituted Government agencies, the responsibility for proper selection rests upon the foundations, not the Government. The foundations should be alert to the dangers of this situation as a result of this experience. We are impressed with the fact, however, that most of these malodorous individuals were selected under political conditions very different from those that now exist and the decisions were taken in a political and emotional climate very different from the present.

There are certain other aspects to be considered which, if not a defense to the charge of laxity on the part of foundations, offer, at
least, an understandable explanation of what occurred. It has been pointed out that the foundations operate on the frontiers of knowledge. Those foundations granting fellowships are seeking intellectualty of the highest order. It has been said in these hearings that there is no necessary correlation between political sagacity and scientific eminence, and it also has been said that there is a correlation between academic eminence and political naiveté. Irrespective of whether these generalizations can be taken literally it may safely be said that many individuals of unusual talent, particularly artists, poets, novelists, playwrights, and musicians, are often nonconformists. That this is apt to be the case is illustrated by the record of the John Simon Guggenheim Memorial Foundation. The Guggenheim Foundation restricts itself to the granting of fellowships to individuals. This obviously renders it more vulnerable than those foundations which make all or a part of their grants to institutions or organizations, for these latter are more easily cataloged than the individual, and with greater accuracy.

This greater vulnerability is attested by an examination of the Guggenheim grants. Admittedly this foundation has done an outstanding job in its selection of fellows. Literally scores of its more than 2,000 fellows have made outstanding records, including 3 Nobel prize winners. Yet despite this notable record, 40 of its fellows have received unfavorable mention by established governmental agencies and 41 additional Guggenheim fellows have received 10 or more citations; this is sufficient to render them, in the committee's opinion, extremely bad risks.

The foundations, for the most part, have made no secret of their mistakes, and have stated frankly that in recent years they have recognized the increasing need to be constantly alert to avoid giving unintended aid to subversives.

The committee believes that on balance the record of the foundations is good. It believes that there was infiltration and that judgments were made which, in the light of hindsight, were mistakes, but it also believes that many of these mistakes were made without the knowledge of facts which, while later obtainable, could not have been readily ascertained at the time decisions were taken. It further believes that the foundations are aware of the ever-present danger and are exerting and will continue to exert diligence in avertting further mistakes. While unwilling to say the foundations are blameless, the committee believes they were guilty principally of indulging the same gullibility which infected far too many of our loyal and patriotic citizens and that the mistakes they made are unlikely to be repeated. The committee does not want to imply that errors of judgment constitute malfeasance.

The committee feels that it should warn foundations against what it considers to be evidence of a willingness to disregard danger signals as exemplified in the testimony of one witness given before the committee during the hearings. Intellectual assurance, if pushed too far, may become intellectual arrogance with all the dangers it entails.
4. Have foundations supported or assisted persons, organizations, and projects which, if not subversive in the extreme sense of the word, tend to weaken or discredit the capitalistic system as it exists in the United States and to favor Marxist socialism?

This is the criticism most frequently made against foundations and it is the one urged with the greatest vehemence. If, for the purpose of this report, we treat the term “subversive” as synonymous with “communism” or “communist,” or as applicable to the apparatus of communism, we can differentiate with greater exactitude between that which is definitely subversive and that which represents merely a criticism of the existing order or the advocacy of a change in the economic-political-social order by constitutional methods. Hereafter we shall treat the term “subversive” as characterizing the illegal and the conspiratorial and as being deeply inimical to this country, its traditions and its way of life. In the preceding paragraphs we have discussed the efforts of the Communists to capture, infiltrate, and influence foundations, and have indicated our view of the measure of success or failure their efforts met. We now pass to the question of whether the foundations have used their resources to weaken, undermine, or discredit the American system of free enterprise either by criticism, ridicule, or pale praise while at the same time extolling the virtues of the socialistic state.

The testimony does not establish this to be the case as to the foundation system in general. It has been established that some foundation funds have gone to the support of the Communist line or to proved Communists or Communist sympathizers, but where this occurred it is our belief that it occurred inadvertently or through the stealth and deceit of Communist “infiltrates.” To these instances must be added those few isolated cases where foundations became captives of the Communist Party. What we are expressing here is our belief that the foundations, with the exception of the captive foundations noted above, have not deliberately thrown their support to the Marxist philosophy and against what we have come to regard as the American system of capitalistic free enterprise.

In refutation of our position will be cited the instances of foundation support for the Russian area studies at various universities, for the translation of Russian books, for studies in the social sciences deemed socialistic by some critics. We think the testimony given before the committee made clear the distinction between “study” of a subject and the “teaching” of it. The one embraces objective analysis. The other contemplates the advocacy of principles.

Area studies such as this should be made only after meticulous screening of those entrusted with the task and under constant safeguards.

The same reasoning must be applied to the new fields of inquiry in the social sciences which are receiving the support of foundations. Many of our citizens confuse the term “social,” as applied to the discipline of the social sciences, with the term “socialism.” And since the social sciences may be defined as the study of man’s relationship to man, the problem of every man considering himself an expert in the field is ever present. Few individuals feel themselves qualified to express an expert opinion on nuclear fission or the value of isotopes.
But most of us will not hesitate to express our opinions on such homely subjects as divorce, the causes for the increase in the cost of living, the psychological effect of segregation, the increase in juvenile delinquency, or the impact of television on the study habits of children. But these and other subjects within the orbit of the social sciences are proper subjects for objective study and analysis under conditions of control which give promise of revealing scientific facts.

The committee is impressed with the testimony of the foundations that their area of usefulness is to some extent in what they describe as controversial fields. In entering these fields, they knowingly invite criticism and thereby assume the calculated risks incident to exploring new fields of knowledge. They regard such risks as justified because of the great good that may evolve for mankind. The committee finds no fault with the general policy of the major foundations of promoting experiments designed to help men to live peaceably together, so long as they are conducted with devotion to the American tradition of freedom.

But there are additional arguments urged in favor of the foundations' work in the social sciences. Many studies in these fields have benefited government as well as business. Among these are studies of our national income, our markets, our productivity, our business cycles, the relationship between the productivity of the worker and the standard of living. It has been said in the hearings that the foundations, both in their conception and their work, give support to the capitalistic system. It seems paradoxical that in a previous congressional investigation in 1915 the fear most frequently expressed was that the foundations would prove the instruments of vested wealth, privilege, and reaction, while today the fear most frequently expressed is that they have become the enemy of the capitalistic system. In our opinion neither of these fears is justified.

5. Are trustees of foundations absentee landlords who have delegated their duties and responsibilities to paid employees of the foundations?

6. Do foundations tend to be controlled by interlocking directorates composed primarily of individuals residing in the North and Middle-Atlantic States?

Questions 5 and 6 may be discussed more conveniently if grouped together. The idea that the office of trustee or director of a large foundation is a sinecure involving little work, enormous prestige, and not inconsiderable power which is traditionally delegated to the paid members of the staff seems to have obtained widespread acceptance.

In part this idea is true but in larger part it is the child of misinformation. The position of trustee or director of one of the large foundations undoubtedly carries with it dignity and the badge of achievement. This is due not only to the prestige which foundations themselves enjoy in the public mind but also to the distinguished company of men who traditionally have held these positions of trust and responsibility. But the belief that a trustee has few if any duties connected with his office is contrary to all that this committee has been able to learn.

It appears that the duties and responsibilities of trustees of the large foundations are onerous to the point that they would seriously interfere with the work of the average businessman. As a group, trustees of the larger foundations are men of outstanding achievement,
broad interests, and proven competence who have demonstrated their capability for and willingness to assume heavy burdens of work. This latter qualification is an important one, and is well utilized by the foundations. Since many of the larger foundations have their headquarters in New York and since availability is an important consideration it is only natural that the great majority of trustees should come from New York and nearby areas. It is also understandable that the services of an outstanding man should be sought by more than one foundation and that we should therefore find a number of individuals serving on the board of more than one foundation.

Despite these considerations, all of which are persuasive, the committee feels that a wider geographical distribution would go far toward establishing greater public confidence in the foundations and would dispel much of the distrust which shelters under a traditional fear of Wall Street. It is also entirely possible that a sustained search for qualified individuals residing west of the Hudson River might assist the foundations to maintain the freshness of approach, flexibility, and breadth of vision for which they profess to strive. If, as the foundations maintain and the committee believes, foundations are public trusts then the public in its widest sense, including the geographical, should be fairly represented.

This observation leads naturally to a question which has given the committee some concern. Since practically all foundation trustees serve without compensation and since the duties of the trustees of the larger foundations require considerable expenditure of time and effort, are not foundation trusteeships largely limited to the very wealthy, the retired, or the academic circles? The committee recognizes that there are arguments both pro and con with respect to compensation of trustees but it feels that the question posed is worthy of consideration by the foundations.

As to the delegation by trustees of their duties and responsibilities, the problem is basically the same one that confronts the directors of a business corporation. Both must rely in large measure upon their staffs. There is this one important difference, in the opinion of the committee. The trustees of a public trust carry a heavier burden of responsibility than the directors of a business corporation. In fairness it should be said that in the opinion of the committee this principle is fully recognized by the trustees of foundations and that they make a determined effort to meet the challenge.

7. Through their power to grant and withhold funds have foundations tended to shift the center of gravity of colleges and other institutions to a point outside the institutions themselves?

This question arises from a criticism which has come to the committee from persons well informed generally and situated in positions from which a strategic view of the situation can be had. The committee does not consider itself sufficiently well advised on this point to hazard a view.

8. Have foundations favored internationalism?

9. To what extent are foundations spending American money in foreign countries?

Questions 8 and 9 present common problems and are discussed together. While the expenditure of money in foreign countries might,
in and of itself, be considered evidence of a bias toward internationalism, the committee does not feel that this is necessarily so. Those foundations which have made substantial foreign expenditures are frankly and openly in favor of international cooperation along cultural and educational lines. The Ford Foundation, for instance, has made the promotion of peace one of its major objectives and it believes this can best be achieved by international cooperation. To that end it has appropriated large sums of money for assistance to certain foreign countries and the bulk of this money is being spent in those countries where assistance is being given. The officials of the Ford Foundation have stated flatly that they believe the interests of the United States are being advanced by these expenditures and that if they did not so believe they would not make the expenditures.

The Carnegie Endowment for International Peace is committed by the very purpose for which it was founded to international cooperation. To the extent that it implements its avowed purpose it is in a sense internationalist.

Mr. Rockefeller once said that he had made his money all over the world and that he wished it spent on behalf of mankind throughout the world. The Rockefeller Foundation has followed the founder's thinking in this respect and approximately one-third of its grants are spent abroad. However, the thinking behind these grants does not appear to be internationalist in the sense in which that term is usually used. The committee gathers that the Rockefeller Foundation is thinking internationally in terms of culture, education, and public health rather than in terms of politics. The quest for total elimination of yellow fever has carried it across international boundaries and into other continents. Once on the scent it cares not where the trail leads. These are but a few instances. We think it a fair statement to say that activities on an international scale and foreign expenditures in significant amounts are limited to only the very largest of the foundations. Some of the smaller foundations cross international boundaries in connection with the granting of fellowships and grants-in-aid.

Considering the picture as a whole, those foundations operating on an international scale are very few in number, but because they are well known and their expenditures comparatively great, the attention focused on their foreign activities is disproportionate. Those foundations which are concerned with internationalism along political lines appear to center their activities around projects which support the Government policy of participation in United Nations activities. All foundations deny participation in politics or political propaganda. The committee believes that these international activities and foreign expenditures of the foundations are motivated chiefly by consideration of the welfare of the American people and as such are entirely praiseworthy.

10. Do foundations recognize that they are in the nature of public trusts and are therefore accountable to the public or do they clothe their activities in secrecy and resent and repulse efforts to learn about them and their activities?

All foundations questioned have, without exception, stated that they consider themselves to be public trusts. At that point unanimity ceases. The larger foundations take the position that as public trusts
they are accountable to the public and that the public is entitled to
know in detail about their resources, income, expenditures, personnel,
and programs. Stated in the words of one of their trustees "founda-
tions should not only operate in a goldfish bowl—they should operate
with glass pockets." In short the larger foundations favor public
accountability and public accounting. To this end most of the
larger foundations publish detailed annual reports which are given
wide distribution among the various media of mass communication,
public libraries, schools, and colleges.

On the other hand, many of the small foundations, particularly
those designed to receive the deductible contributions from individuals
and privately owned corporations, oppose public accounting on the
ground that they do not wish the public to know the amount of con-
tributions made by the donor and his family, or by corporations
owned or controlled by the donor. To a lesser extent many of the
smaller foundations oppose public disclosure of their expenditures.
They argue that public disclosure of contributions and expenditures
will cause the abandonment of many of the small foundations now in
existence and will discourage the formation of new small foundations.

The committee recognizes that public disclosure of the names of
contributors and the amounts contributed to foundations might result
in an unfortunate curb on philanthropic giving. It does feel, however,
that such information should be made known to the Bureau of Internal
Revenue where it would also be available to the appropriate com-
mittees of Congress. It feels also that full public disclosure should
be made by such organizations of all grants made so that the public
will be in a position to determine whether tax-exempt moneys are
being used for the purposes for which these organizations were created.

11. Are foundations being used as a device by which the control of great
corporations are kept within the family of the foundation's founder
or creator?

12. To what extent are foundations being used as a device for tax avoid-
ance and tax evasion?

The committee regards questions 11 and 12 as matters for the con-
sideration of the Committee on Ways and Means. It therefore has
made no attempt to find the answers to these questions. We feel the
questions are of sufficient importance to warrant inquiry by the Ways
and Means Committee and this committee wishes to make its files
available to the Ways and Means Committee if the latter believes they
will be of assistance to it.

The committee's recommendations are as follows:

1. Public accounting should be required of all foundations. This
can best be accomplished by amendment of the existing laws in sub-
stantially the form herewith submitted as appendix A, to which we
direct the attention of the Eighty-third Congress.

2. That the Ways and Means Committee take cognizance of our
finding that the maintenance of private sources of funds is essential
to the proper growth of our free schools, colleges, churches, founda-
tions, and other charitable institutions. We respectfully suggest that
the committee reexamine pertinent tax laws, to the end that they may
be so drawn as to encourage the free-enterprise system with its re-
wards from which private individuals may make gifts to these merito-
rious institutions.
The Committee has received material assistance from numerous Government agencies, and especially from the Bureau of Internal Revenue, the Library of Congress, the Committee on Un-American Activities, the McCarran committee, the Office of Education, the Banking and Currency Committee, the Committee on Labor and Education, and the Federal Bureau of Investigation.

The committee wishes to acknowledge the cooperation afforded it by the foundations. There has been no instance of obstruction, delay or resentment on the part of the foundations.

The committee was fortunate in securing the services of Harold M. Keele, of Chicago, as general counsel. Upon his approval by the committee, Mr. Keele arranged to devote his full time to this study and has rendered an outstanding service in directing the surveys and legal inquiries necessary to carry out the mandate of Congress. The committee appreciates his devotion to this task and the excellent service which he has rendered.

The committee desires to give recognition to the able and unremitting work of the following members of its staff:

Thomas J. Feeney, staff director; Edward C. Kennelly, attorney; Joseph C. Kiger, director of research; Mary E. Searight, clerk; Edith M. Knight, administrative assistant; Russell McFarland, investigator; Roger H. Mudd and William H. Snape, Jr., research assistants; Sarah Jane Billingsley, Mary L. Taylor, and Clarence A. McGillen, Jr., clerical assistants.

The foregoing report is respectfully submitted this 1st day of January 1953.

Brooks Hays,  
Acting Chairman.

Donald L. O'Toole.

Aime J. Forand.

Richard M. Simpson.

Angier L. Goodwin.

B. Carroll Reece.

(As pointed out and stressed in this report, the select committee has had insufficient time for the magnitude of its task. Although I was unable to attend the full hearing I feel compelled to observe that, if a more comprehensive study is desired, the inquiry might be continued by the Eighty-third Congress with profit in view of the importance of the subject, the fact that tax-exempt funds in very large amounts are spent without public accountability or official supervision of any sort, and that, admittedly, considerable questionable expenditures have been made. — B. Carroll Reece.)

APPENDIX A

AN ACT To provide for public accountability by tax-exempt organizations, and other purposes.

Be it enacted by the Senate and House of Representatives of the United of America in Congress assembled, That this Act may be cited as the "Public Accountability Act for Tax-Exempt Organizations," and

That Section 153 of the Internal Revenue Code is hereby amended to read as follows:

"Section 153. Information Required From Certain Tax-Exempt Organizations and Certain Trusts.

(a) Certain Tax-Exempt Organizations.—Every organization described in section 101 (6) which is subject to the requirements of section 54 (f) shall
furnish annually information, at such time and in such manner as the Secretary
can be furnished by regulations prescribe, setting forth—

1. Its total contributions received during the year;
2. Its gross income for the year;
3. Its expenses attributable to such income and incurred within the year;
4. A breakdown of such expenses to show its administrative overhead,
   including the annual salaries of any trustees, directors, officers or employees
   receiving more than $1,000.00 per year;
5. Its disbursements out of income within the year for the purposes for
   which it is exempt;
6. Its accumulation of income within the year;
7. Its aggregate accumulations of income at the beginning of the year;
8. Its disbursements out of principal in the current and prior years for
   the purposes for which it is exempt;
9. A balance sheet showing its assets, liabilities and net worth as of the
   beginning of such year;
10. A complete list of all contributors and amounts contributed during
    the year where the amounts of such individual contributions exceed $200.00;
11. The names and addresses of all persons or organizations receiving
    grants during the year and the amount and general purpose of each such
    grant.

(b) TRUSTS CLAIMING CHARITABLE, ETC., DEDUCTIONS UNDER SECTION
162 (a).—Every trust claiming a charitable, etc., deduction under section 162
(a) for the taxable year shall furnish information with respect to such taxable
year, at such time and in such manner as the Secretary may by regulations
prescribe, setting forth—

1. The amount of the charitable, etc., deduction taken under section
   162 (a) within such year (showing separately the amount of such deduction
   which was paid out and the amount which was permanently set aside for
   charitable, etc., purposes during such year);
2. The amount paid out within such year which represents amounts for
   which charitable, etc., deductions under section 162 (a) have been taken in
   prior years;
3. The amount for which charitable, etc., deductions have been taken in
   prior years but which has not been paid out at the beginning of such year;
4. The amount paid out of principal in the current and prior years for
   charitable, etc., purposes;
5. The total income of the trust within such year and the expenses
   attributable thereto; and
6. A balance sheet showing the assets, liabilities, and net worth of the
   trust as of the beginning of such year.

This subsection shall not apply in the case of a taxable year if all the net
income for such year, determined under the applicable principles of the law of
trusts, is required to be distributed currently to the beneficiaries.

(c) INFORMATION AVAILABLE TO THE PUBLIC.—The information required to
be furnished by subsections (a) and (b), with the exception of that required by
subsections (a) (4) and (a) (10) above, together with the names and addresses
of such organizations and trusts, shall be made available to the public at such
times and in such places as the Secretary may prescribe.

(d) PENALTIES.—In the case of a willful failure to furnish the information
required under this section, the penalties provided in section 145 (a) shall be
applicable. In addition exemption under section 101 (6) shall be denied for
the taxable year."