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# PHILANTHROPIC FOUNDATIONS

By

F. Emerson Andrews

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# Foreword

MUCH evidence exists that public interest in private philanthropy recently has been increasing, and attitudes toward it changing. The traditional attitude has been that charitable giving was a private matter, especially worthy of praise if done in secret. For small, personal gifts in a neighborly setting, where the donor could know the situation and observe the results of his giving, this ethic had much to commend it, and still does.

Philanthropy has now grown into a large enterprise, with giving annually exceeding five billions of dollars. Complications of various sorts have set in. Government serves many of the primary needs which formerly had first call upon our purses and sympathies. Most of the social services have been professionalized, so that an agency intervenes between giver and recipient, and sometimes still another agency specializes in the raising of funds. Persons in the higher tax brackets, and nearly all corporations, give dollars that are more than half forgiven taxes, and less than half a sacrifice of personal income.

We do not subscribe to the view that tax encouragement of private giving should bring that giving under rigid public controls. Voluntary philanthropy has an important place in American social progress largely because it is free, and able to experiment. Tax exemption is granted to encourage creative philanthropy and enlarge its resources; to attempt to impose controls would dry up gift dollars at their source and destroy the very freedom that gives private philanthropy unique value.



But freedoms can survive only where responsibilities are accepted. Recognition of the principle that freedom to give implies responsible giving is apparent in the philanthropic activities of those individuals and foundations best known for the benefits that have followed their gifts. There are, however, so many donors, both large and small, who seem unmindful of this principle that its importance needs constant stress and explanation. The *Annual Report* of Russell Sage Foundation for 1950-1951 put the problem in the following words:

. . . The right to give for the benefit of others imposes an obligation to be as fully informed as possible about the probable consequences of a gift. There is a natural resistance by the person who has had the ability to accumulate money which he can afford to give away to the suggestion that he may not be well qualified to decide precisely for what, how much, to whom, and under what conditions it should be given. Yet, it is obviously difficult for the layman to judge the relative needs of such broad fields of philanthropic opportunity as, for example, education, the health services, social welfare, or research. However, the financial needs of all such general areas are so great that a decision to aid any one of them rather than the others is not questionable. But money cannot actually be well spent by giving just to education, health, welfare, or research; sooner or later specific choices are necessary at a series of levels down to the point where cash expenditures are made for rent, food, books, microscopes, and the like, by individuals whose skills, planning, and judgment determine the ultimate return on the philanthropic dollar. In the case of the direct giver, this means investigation of the utility and feasibility of the objectives, of the integrity, of the technical skills, and of the operating efficiency of the receiving agency, commensurate with the size of the gift.

Partly because of these complications a substantial portion of current giving is channeled through a relatively new and typically American institution called the foundation. Such foundations have existed in significant numbers only during the last half-century in the American sense of that term, which implies a free-

dom of action not true of the fixed-purpose charitable trusts that have long existed in other countries.

The peculiar tax situation following World War II made it possible to use them in some situations as a financial device with little necessary relation to pure philanthropy. Abuses occurred, which the Revenue Act of 1950 largely corrected. But two congressional investigations in recent years have emphasized the fact that the public has little accurate knowledge of what these nebulously defined institutions are and do, and within the foundations themselves there has been too little sharing of experience, procedures, and general knowledge. When Dr. F. Emerson Andrews presented to the Foundation trustees his proposal for a study on *Philanthropic Foundations*, it was given prompt approval.

This study deals with the present position of foundations, their types, organization, boards of trustees, finances, professional staff, methods of operation, grant programs, areas of interest, reporting and publicity, legal problems, and current trends. It is based upon extensive interviews, correspondence, questionnaires, examination of the literature in the field, and its author's long experience with Russell Sage Foundation and as consultant and adviser to other foundations and philanthropic organizations. One chapter, presenting the findings on scientific research supported by foundations, reports a special study Russell Sage Foundation conducted for the National Science Foundation as a part of that organization's major project for estimating total research expenditures in the United States.

The study is designed primarily for the assistance of foundations now in operation, their trustees and staffs, and as an aid to prospective donors and their advisers in setting up such institutions. Seekers of foundation grants may also find it useful. It is further hoped that its discussions of all phases of foundation operation may serve to promote wider public understanding of this instrument for the contribution of private wealth to public purpose.

Preparation of this study involved generous cooperation from foundation executives, who filled out confidential questionnaires

and granted extended interviews; from leaders in the welfare and education fields and others on the recipient side; and from publishers, who without exception granted permission wherever requested for use of published material. The footnotes acknowledge some, but by no means all, of these instances of useful aid. To all such persons and organizations the Foundation and the author extend sincere thanks, and express the hope that they will find value in the volume their help made possible.

Ray Garrett, past chairman of the Section of Corporation, Banking and Business Law of the American Bar Association, was retained as legal consultant for this study. We are indebted to him for his review of the text in its legal aspects.

DONALD YOUNG

*President, Russell Sage Foundation*

December 15, 1955

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*PHILANTHROPIC FOUNDATIONS*





# Foundations Today

THE FOUNDATION is an instrument for contributing private wealth to public purpose. Substantial sums are usually assumed, but such forms as the community trust, the family foundation, and the corporation foundation make most of its advantages available for modest contributions, or for annual gifts that may grow into a large final amount.

## *Definition*

A foundation may be defined as a nongovernmental, nonprofit organization having a principal fund of its own, managed by its own trustees or directors, and established to maintain or aid social, educational, charitable, religious, or other activities serving the common welfare. Legally, foundations fall under the classic definition of Justice Gray:

A charity, in the legal sense, may be more fully defined as a gift, to be applied consistently with existing laws, for the benefit of an indefinite number of persons, either by bringing their minds or hearts under the influence of education or religion, by relieving their bodies from disease, suffering or constraint, by assisting them to establish themselves in life, or by erecting or maintaining public buildings or works or otherwise lessening the burdens of government.<sup>1</sup>

Name is not decisive. Variant names under which foundations have appeared include *The Rockefeller Foundation*, but also the *Carnegie Corporation* of New York, *Smithsonian Institution*, *Duke*

<sup>1</sup> *Jackson v. Phillips*, 14 Allen 539, 556 (Mass. 1867).

*Endowment*, Commonwealth *Fund*, American *Academy* in Rome, American *Missionary Association*, George F. Baker *Charity Trust*, Carnegie Hero *Fund Commission*, Church Peace *Union*, *Trustees* under the Will of Lotta M. Crabtree, Thomas J. Emery *Memorial*, New York *Community Trust*, Hartford *Foundation for Public Giving*, Havens Relief *Fund Society*, James N. Jarvie *Commonweal Service*, The A. W. Mellon *Educational and Charitable Trust*, Edward Rutledge *Charity*, Whitney *Benefits*, *Estate* of Harry C. Trexler, and *Independent Aid* (recently changed to the Doris Duke *Foundation*). Frederick P. Keppel once proposed that the name *foundation* be reserved for those set up as perpetuities, with *fund* applied to those in which principal may be spent as well as income;<sup>1</sup> but no such distinction exists in present practice.

Indeed, the prestigious name *foundation* has been adopted by many organizations which fall outside our definition and have no proper right to its use. These include agencies which solicit contributions instead of disbursing from an established fund, and some which are trade associations, pressure groups, or outright rackets. As an example of a trade association, a Hat Research *Foundation* was reported as set up by the hat industry largely to guard against expansion of the hatless vogue among men. In the 1953 hearings before a joint legislative committee of New York State it was revealed that the National Kids Day *Foundation* had collected from the public in five years \$3,978,000 through mailing out pens and similar devices, of which only \$302,000 was spent for its announced purposes. This "foundation" ceased operations under pressure of the California attorney general.

Another large group of "foundations" do not fall within this study because they are not legal entities with separate governing boards. Typically, they are endowment funds set up for special purposes within colleges and universities, in churches, or in other organizations, and governed by the trustees of the parent institution. College foundations are frequently in the form of memorial bequests establishing scholarships, a chair in a particular field, a lectureship, a library collection, a special department, or a re-

<sup>1</sup> Keppel, Frederick P., *The Foundation: Its Place in American Life*. Macmillan Co., New York, 1930, p. 3.

search project. In a church the fund may be for the parish poor, for religious education, for building maintenance, for missionary support, or for any of a wide variety of other religious purposes.

This study is concerned primarily with the foundation as that term is understood in America today. Its predecessors, which were usually endowments for limited purposes, existed from earliest history, at some periods in considerable numbers. But the special ingredient which distinguishes the foundation in the American understanding of the name is wide freedom of action. With a very few exceptions, such organizations have arisen only in the United States and nearly all of them within the past sixty years.

### *The Number of Foundations*

A witness before a recent congressional investigating committee estimated that there were "between 30,000 and 35,000 foundations in this country," but admitted that this was by "the broadest possible definition [including] the endowment of every college in this country . . . the endowment of every hospital, scientific society, or any other charitable body."<sup>1</sup> Such an omnibus definition does not serve the purposes of this study.

On the basis of definitions closely paralleling the one used in this study, lists of foundations have been published over a period of years by several organizations. These are presented in Table 1.

All but the last of these directories of foundations were compiled from correspondence, previous lists, reports in the press, and chance knowledge. No central registry of foundations and charitable trusts was available. But the Revenue Act of 1950 included a provision requiring all such organizations to file information returns that would be open to public inspection. American Foundations Information Service descriptions, therefore, are based on public documents and other data filed between 1950 and 1954. However, many foundations established more recently are not included, and evidence exists that the files in the district

<sup>1</sup> *Hearings Before the Select (Cox) Committee to Investigate Tax-Exempt Foundations and Comparable Organizations*. U.S. House, 82d Congress, 2d Session. Government Printing Office, Washington, 1953, p. 13.

TABLE 1. NUMBER OF FOUNDATIONS REPORTED IN DIRECTORIES  
PUBLISHED FROM 1915 TO 1955

Year	Title of directory	Number of foundations
1915	American Foundations <sup>a</sup>	27
1920	American Foundations <sup>a</sup>	54
1924	American Foundations <sup>a</sup>	127
1926	American Foundations <sup>a</sup>	179
1930	American Foundations for Social Welfare <sup>a</sup>	185
1931	American Foundations and Their Fields <sup>b</sup>	122
1932	American Foundations and Their Fields <sup>b</sup>	129
1934	American Foundations and Their Fields <sup>b</sup>	123
1938	American Foundations for Social Welfare <sup>a</sup>	188
1939	American Foundations and Their Fields, IV <sup>c</sup>	243
1942	American Foundations and Their Fields, V <sup>c</sup>	314
1946	American Foundations for Social Welfare <sup>a</sup>	505
1948	American Foundations and Their Fields, VI <sup>c</sup>	899
1955	American Foundations and Their Fields, VII <sup>d</sup>	4,162

<sup>a</sup> Published by Russell Sage Foundation. 1946 edition a bound book written by Shelby M. Harrison and F. Emerson Andrews.

<sup>b</sup> Published by Twentieth Century Fund, edited by Evans Clark.

<sup>c</sup> Published by Raymond Rich Associates. Vols. 4 and 5 compiled by Geneva Seybold; vol. 6, edited by Wilmer Shields Rich and Neva R. Deardorff.

<sup>d</sup> Published by American Foundations Information Service, prepared by Wilmer Shields Rich.

offices were by no means complete. It is probable that some 5,000 foundations now exist that meet the definition used in this study.

### *Geographical Distribution*

A high proportion of these foundations are concentrated in the industrial and wealthier East. Table 2 locates by states the foundations recorded in lists published in 1946 and 1955.

The first notable fact is the heavy concentration of these foundations, numerically, in the East, particularly the Middle Atlantic and East North Central states. These eight states accounted for 68 per cent of the foundations listed in 1946; 58 per cent of the 1955 tabulation. This slight decline in percentage may indicate some actual relative growth in foundations in other parts of the country in recent years, particularly family and corporation foundations, but it may also reflect chiefly the better coverage possible in the later survey and inclusion in it of smaller foundations than the 1946 study admitted. In any event, even the later survey's report of 1,238 foundations in New York State,

with 1,136 of these in New York City, represents a present high concentration. Asset data merely confirm this picture. Foundations in New York State had 52 per cent of the assets of all the reporting foundations in the 1946 tabulation; just under 56 per cent in the Rich compilation.

High concentration in and about New York City does not imply that all or most of this wealth is devoted to local projects. Almost all of the larger foundations make grants and support activities throughout the United States, and some of them internationally. On the other hand, foundations located in smaller cities and in less industrialized states often maintain programs chiefly of local benefit. But even with these reservations the present geographical concentration of foundation wealth, offices, and personnel creates policy problems.

Among states with a substantial number of foundations, Illinois, Maryland, and Texas have made outstanding gains in their percentage of the foundation total. In the case of Texas, the growth has also been notable in terms of reported assets. Three Texas foundations reported a total of \$30 million in assets in the 1946 study; the Rich 1955 report shows 119 of the 125 Texas foundations having assets of \$113 million.

### *Their Share in Present Philanthropy*

The popular assumption that foundations are a reservoir of almost unlimited wealth, able to undertake vast projects at will, is quite mistaken. It grew up, doubtless, because many of these foundations bear the names, and often received most of the estates, of persons noted for their individual wealth. But the wealth of any individual is not considerable in today's total economy, and the combined holdings of all the foundations are much less than is commonly thought.

The 1953 figures are not wholly complete and some growth among foundations has occurred since that compilation. It may be assumed that the total worth of foundations is in the neighborhood of \$4.9 billion<sup>1</sup>, and their annual expenditures of the order

<sup>1</sup> With Ford Foundation assets at ledger value. The figure will rise substantially in 1956.



TABLE 2. GEOGRAPHICAL DISTRIBUTION OF FOUNDATIONS BY REGIONS AND STATES AS REPORTED IN 1946 AND 1955

Region or state	1946		1955	
	Number	Per cent	Number	Per cent
United States	505	100.0	4,164	100.0
<i>New England</i>	46	9.1	322	7.7
Maine	—	—	6	0.1
New Hampshire	—	—	9	0.2
Vermont	—	—	5	0.1
Massachusetts	31	6.1	171	4.1
Rhode Island	1	0.2	37	0.9
Connecticut	14	2.8	94	2.3
<i>Middle Atlantic</i>	282	55.8	1,547	37.1
New York	236	46.7	1,238	29.7
New Jersey	11	2.2	104	2.5
Pennsylvania	35	6.9	205	4.9
<i>East North Central</i>	63	12.4	887	21.3
Ohio	19	3.7	162	3.9
Indiana	7	1.4	36	0.9
Illinois	12	2.4	366	8.8
Michigan	18	3.5	229	5.5
Wisconsin	7	1.4	94	2.2
<i>West North Central</i>	24	4.8	238	5.7
Minnesota	7	1.4	88	2.1
Iowa	2	0.4	37	0.9
Missouri	12	2.4	89	2.1
North Dakota	—	—	2	0.1
South Dakota	—	—	1	—
Nebraska	1	0.2	14	0.3
Kansas	2	0.4	7	0.2
<i>South Atlantic</i>	42	8.3	530	12.7
Delaware	6	1.2	26	0.6
Maryland	2	0.4	149	3.6
District of Columbia	14	2.7	46	1.1
Virginia	2	0.4	43	1.0
West Virginia	1	0.2	3	0.1
North Carolina	5	1.0	78	1.9
South Carolina	3	0.6	42	1.0
Georgia	8	1.6	88	2.1
Florida	1	0.2	55	1.3
<i>East South Central</i>	8	1.6	114	2.7
Kentucky	4	0.8	29	0.7
Tennessee	1	0.2	48	1.1
Alabama	2	0.4	21	0.5
Mississippi	1	0.2	16	0.4
<i>West South Central</i>	7	1.4	194	4.7
Arkansas	—	—	26	0.6
Louisiana	1	0.2	27	0.7
Oklahoma	3	0.6	16	0.4
Texas	3	0.6	125	3.0

TABLE 2—(Continued)

<i>Mountain</i>	11	2.2	94	2.3
Montana	—	—	—	—
Idaho	—	—	6	0.2
Wyoming	2	0.4	2	—
Colorado	9	1.8	62	1.5
New Mexico	—	—	5	0.1
Arizona	—	—	10	0.2
Utah	—	—	7	0.2
Nevada	—	—	2	0.1
<i>Pacific</i>	20	4.0	235	5.7
Washington	1	0.2	25	0.6
Oregon	5	1.0	15	0.4
California	14	2.8	195	4.7
<i>Territory</i>	2	0.4	3	0.1
Hawaii	2	0.4	3	0.1

SOURCES: HARRISON and Andrews, *American Foundations for Social Welfare*, pp. 200–201; Rich, *American Foundations and Their Fields*, 7th ed., pp. xx–xxi.

of \$400 million. But a substantial portion of the latter figure represents giving by individuals and companies from current income, channeled through their newly created foundations. It duplicates personal and corporate giving reported on income-tax tabulations. Foundation grants from endowment income probably do not exceed \$300 million in most years.<sup>1</sup>

TABLE 3. ESTIMATED ASSETS AND ANNUAL EXPENDITURES OF FOUNDATIONS IN 1944, 1950, AND 1953

Year	Number of foundations	Assets (millions)	Expenditures (millions)
1944	595	\$1,818	\$ 72
1950	1,007	2,574	133
1953 <sup>a</sup>	4,029	4,524	371

<sup>a</sup> Figures range from 1950 to 1954. Only 3,795 foundations reported expenditures.

SOURCES: 1944 figures, *American Foundations for Social Welfare*, p. 58; 1950 figures, Andrews, *Philanthropic Giving*, p. 93; 1953 figures, *American Foundations and Their Fields*, 7th ed., pp. xiv, xx, xxiv.

If this is true, Americans exhale in tobacco smoke every year more than the accumulated wealth of all the foundations together. Many foundations can spend income only, and that income has recently been much reduced both in dollars and in purchasing power. In terms of meeting relief needs, which some

<sup>1</sup> But the Ford Foundation's extraordinary \$500 million appropriation of December, 1955, is to be spent in 1956 and 1957.



foundations still attempt to do, their \$300 million a year available for grants would be negligible. We are now paying out of tax funds about \$1.6 billion a year for old-age assistance benefits; it would take all the grants of all the foundations more than five years just to meet one year's bill for the needy aged alone.

Even in the framework of private philanthropy the dollar contributions that foundations can make are not large. Table 4 and Chart 1, based on a 1954 estimate by the writer, show the proportion at about 4.5 per cent. But because foundations have had long experience in giving and most of them dispense their funds with care, they have built an enviable record of accomplishment from relatively meager resources.

TABLE 4. ESTIMATE OF 1954 RECEIPTS OF PRIVATE PHILANTHROPY IN THE UNITED STATES, BY SOURCE

Source	Amount (millions)	Per cent
Total	\$6,651	100.0
Contributions from individuals	4,789	72.0
Contributions from corporations	375	5.6
Charitable bequests	237	3.6
Foundations <sup>a</sup>	300	4.5
Income from capital (except foundations)	950	14.3

<sup>a</sup> Adjusted to eliminate duplication with sums reported in items 1 and 2 but also given through foundations.

SOURCE: *Philanthropic Giving*, p. 73, revised by author to 1954 estimates.

### *Their Philosophy*

Generalizations will seldom hold for a group so numerous and so diverse as today's foundations. Indeed, a recent writer affirmed a consensus in the foundation field that "existing differences of opinion over the relative merits of various operational procedures . . . are desirable in themselves."<sup>1</sup>

Certain general trends are observable, however, though notable exceptions to them occur. One general trend has been away from individual relief, for which foundation funds are in any event inadequate, toward exploratory work directed to prevention and cure rather than treatment or relief. Discovery is the

<sup>1</sup> Kiger, Joseph C., *Operating Principles of the Larger Foundations*. Russell Sage Foundation, New York, 1954, p. 26. See this volume for extensive discussion of developing foundation doctrine.

keynote of these programs—discovery in the physical sciences, discovery in the social sciences, discovery in the application of knowledge already won. Increasingly, foundation funds are being called the venture capital of philanthropy. Because of their relative freedom from governmental and other controls, it has been suggested that foundations may have a special mandate to enter fields of controversy, where the explosive nature of the issues would make suspect the findings of less independent organizations and where needed financing from any other source might prove difficult.

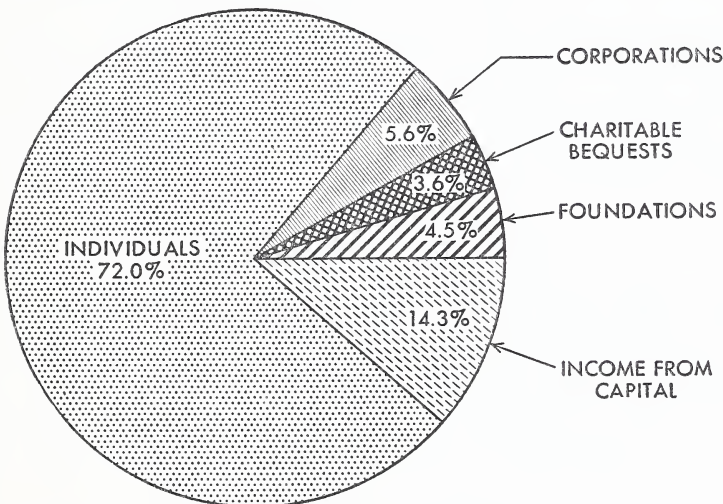


CHART 1. SOURCES OF THE PHILANTHROPIC DOLLAR

Such changes in emphasis are sometimes evident in the developing program of a single foundation. For example, Andrew Carnegie set up the Carnegie Foundation for the Advancement of Teaching in 1905 with an original endowment of \$10 million "to provide retiring pensions for the teachers of Universities, Colleges, and Technical Schools in our country, Canada and Newfoundland under such conditions as you may adopt from time to time."<sup>1</sup> But free pensions were not a good idea. Howard J.

<sup>1</sup> Letter of Gift dated April 18, 1905, quoted in Savage, Howard J., *Fruit of an Impulse: Forty-Five Years of the Carnegie Foundation, 1905-1950*. Harcourt, Brace and Co., New York, 1953, p. 20.

Savage, writer of the Foundation's history, suggests that in the light of present-day knowledge Mr. Carnegie's "gift to the teachers might have taken another form. Conceivably it would not have been made at all."

It was made, but with unexpected consequences. Since the pensions were for "universities, colleges, and technical schools" the Foundation set up qualifying definitions; attempts to meet them worked a revolution in the standards of higher education. Meanwhile the Foundation's firm-minded president, Henry S. Pritchett, won over Mr. Carnegie, after years of resistance, to a modestly endowed Division of Educational Enquiry—a shift in course which the winds of experience have brought to many other philanthropists and endowed charities. The pensions, even when later curtailed, demanded many more millions than Mr. Carnegie originally gave or intended. The research program, helped though it was by grants from the Carnegie Corporation of New York, never had substantial funds but has made outstanding contributions to American education, including the famed Bulletin 4, *Medical Education in the United States and Canada*, by Abraham Flexner, Howard J. Savage's survey of college athletics, and numerous studies of pension plans which were of service far beyond the college field.

The newer foundations have not always had to learn such lessons on effective giving by trial and error. Experience has accumulated, and sometimes they have profited from it. One clear statement of the present "doctrine" of many foundations was made in the report of a special study committee set up by the Ford Foundation to guide its vast new program:

The history of philanthropy is the record of a continuously evolving philosophy of giving. At one time the gifts of individuals and benevolent organizations were intended largely to relieve the suffering of "the weak, the poor and the unfortunate." Philanthropy was thought of merely as temporary relief for evil conditions which would always exist and about which nothing fundamental could be done. With the establishment of the modern foundation a much greater concept came into being. The aim is no longer merely to treat symptoms and temporarily to alleviate distress, but rather to eradicate the causes of suffering. Nor is the modern foundation content to concern

itself only with man's obvious physical needs; it seeks rather to help man achieve his entire well-being—to satisfy his mental, emotional, and spiritual needs as well as his physical wants. It addresses itself to the whole man and to the well-being of all mankind.

A foundation is, by its nature, especially well equipped for this task. It has no stockholders and no constituents. It represents no private, political, or religious interests. Most foundations may, if they deem it wise, expend their total resources within any period they wish. This freedom from entanglements, pressures, restrictive legislation, and private interest endows a foundation with an inherent freedom of action possessed by few other organizations.

Further, a great foundation possesses an extraordinary stature in the public mind. By law, as well as by its charter, it is dedicated to human welfare. Its responsibility is to the public as a whole. In political and social issues it cannot be partisan. This very nonpartisanship and objectivity gives to the foundation a great positive force, and enables it to play a unique and effective role in the difficult and sometimes controversial task of helping to realize democracy's goals.<sup>1</sup>

### TYPES OF FOUNDATIONS

Foundations may be grouped in six main classes. Separation is not sharp; a particular foundation may change in character and program through the years, and at a given period exhibit characteristics of several of the types. The division into the following six classes is made chiefly for purposes of description.

1. General research foundations
2. Special purpose foundations
3. Family or personal foundations
4. Corporation foundations
5. Community trusts
6. Governmental foundations

#### *General Research Foundations*

This classification includes nearly all the larger, well-known foundations. They operate under broad charters. They support the research projects in health, welfare, and education which characterize foundation work in the public mind.

<sup>1</sup> *Report of the Study for the Ford Foundation on Policy and Program*. Ford Foundation, Detroit, 1949, pp. 22-23.



This study has sought detailed information from 77 larger foundations listed on pages 108-109. Four of these are community trusts; a number fall in the "family" and "special purpose" classifications; all the rest are in the general research category. These include such famous names as The Rockefeller Foundation, Ford Foundation, Carnegie Corporation of New York, Commonwealth Fund, and many others.

All those named have large endowments, but programs of national significance can be undertaken by efficient management of smaller sums, and many smaller foundations properly fall within this category of general research. Characteristics include a board of trustees (directors, or managers) of broad interests; a trained professional staff to serve as the "eyes" of the foundation, seeking out promising new ventures, evaluating projects offered, handling details of grants—or actual operations, if the foundation is of the operating type—and following through and reporting back on results, so that future program may build on past experience; and in both board and staff, unquenchable curiosity and the courage to support difficult and often unpopular enterprises.

Many research foundations with present broad programs commenced as the channels for the personal giving of their donors. The beginnings of the Carnegie Corporation of New York are thus described:

While Mr. Carnegie lived, the Corporation was not unjustly regarded as being little else than an incorporated extension of his own individuality.

The composition of the Corporation's Board of Trustees lent color to this description. Two were men who had served Mr. Carnegie for many years as secretaries or personal assistants. Mr. Carnegie had the charter assure life trusteeships for these two. Five more trusteeships were assigned for the time being to the presidents of five foundations which Mr. Carnegie had already endowed and on each of whose several boards he sat as a trustee. . . .

A board thus constituted must naturally have inclined to adhere closely to preferences and interests which Mr. Carnegie's veteran assistants and the presidents of the five earlier foundations impressed upon its deliberations. But the founder of the Corporation had made it clear that he wanted it to move forward with the changing times and to seek new outlets for philanthropic expenditure without allow-

ing itself to become foot-tied to the past. The trustees evidently understood his wish, for at the meeting at which Keppel was elected, on December 22, 1922, they amended the charter to create seven additional trusteeships and to provide that the Board should fill them by electing trustees for five-year terms.<sup>1</sup>

Although the foundations that can now be classified as "general research" probably do not exceed 150 in number, they control more than half the assets of all foundations, and are the ones most in the public eye. To a large degree they are the leaders and standard-setters for the foundation movement.

### *Special Purpose Foundations*

The special purpose foundation was the earliest and is the most widespread of all the types. These are created, many of them by will or trust instrument rather than incorporation, to serve a charitable purpose closely detailed, usually in the charter or at least in a letter of gift. They began in earliest history. The Pharaohs, more than a thousand years before Christ, set up perpetuities for specific religious observances. Xenophon established a "foundation" in Scillus dedicating land and building a temple to Artemis, and providing for an annual festival at which all citizens and neighbors, men and women, should receive "barley meal and loaves of bread, wine and sweetmeats, and a portion of the sacrificial victims from the sacred herd as well as victims taken in the chase." Plato, before his death in 347 B.C., directed that the natural income of his fields should be used for the perpetual support of the Academy, which survived nearly 900 years, being finally suppressed by the Christian Emperor Justinian in A.D. 529 for teaching "pagan" doctrines.

A recent report of Lord Nathan's committee in Britain stated that there were in that country some 110,000 charitable trusts ranging "from village funds disposing of a few shillings annually up to the great national trusts whose endowments run into millions of pounds."<sup>2</sup> Most of these are special purpose perpetuities.

<sup>1</sup> "President of the Carnegie Corporation" by Henry James in *Appreciations of Frederick Paul Keppel*. Columbia University Press, New York, 1951, pp. 49-50.

<sup>2</sup> *Report of the Committee on the Law and Practice relating to Charitable Trusts*. Cmd. 8710. Her Majesty's Stationery Office, London, 1952, p. 13.

For example, the Worshipful Company of Farriers fund, established "in 1356 or earlier," awards gold, silver, and bronze medals in horseshoeing contests at county agricultural shows.<sup>1</sup> The Drincqbier Fund gives out half-sovereigns to deserving poor men and women on New Year's Day.<sup>1</sup> One British foundation was created to propagate the writings of Joanna Southcote, who founded a religious faith based on the belief that she was to give birth to the Messiah; she died childless.

The fund set up by Sir John Port in Etwall Parish may serve as a classic example of good intentions gone awry.<sup>2</sup> Sir John, dying in 1556, set up a perpetual fund to maintain a school and almshouse, Etwall Hospital, which should care for the six poorest of the parish. He probably supposed that he had solved for all time the problem of local poverty in this small parish, and not only the poor but all residents of Etwall would forever bless his name for relieving them of the care and costs of poor relief. What happened? Three hundred years later his fund had grown so that income was about £3,000 a year, a very substantial sum. But poor rates in Etwall Parish were much higher than in neighboring parishes, apparently because the fame of his gift brought shiftless persons crowding into Etwall hoping to take advantage of it. Changes in the scheme had to be made in 1874, 1908, and 1923, expanding the number of beneficiaries and the area served.

American foundations and charitable trusts measure their history in years or decades, not in centuries; most of them have not yet stood time's severer tests. But special purpose funds for strange and sometimes outmoded charities are not lacking. An Emma A. Robinson Horses' Christmas Dinner Trust Fund is reported in Olathe, Kansas. The Henry G. Freeman, Jr., Pin Money Fund, still tied up in a life estate, would supply an annuity of about \$12,000 to the wives of presidents of the United States

<sup>1</sup> Listed in Keeling, Guy W., *Trusts and Foundations*. Bowes and Bowes, Cambridge (England), 1953.

<sup>2</sup> Hobhouse, Sir Arthur, *The Dead Hand: Addresses on the Subject of Endowments and Settlement of Property*. Chatto and Windus, London, 1880, pp. 63-65. Later developments from Beveridge, Lord, *Voluntary Action*. Macmillan Co., New York, 1948, pp. 360-361.

"as long as this glorious government lasts." The Samuel G. Davis Fund established in Mashpee, Massachusetts, in 1930 to reward Mashpee students for "good, kind manners" was petitioning the courts in 1938 for permission to use the income for school construction since the town officials "can't find enough mannerly boys to reward."

The most famous example of an outmoded fund is the so-called "covered wagon" fund established in St. Louis by Bryan Mullanphy in 1851 "to furnish relief to all poor emigrants and travelers coming to St. Louis on their way, bona fide, to settle in the West." But it is less well known that when this fund ran out of emigrant customers it was finally transferred by the courts by *cy pres* proceedings to the general purposes of travelers' aid in St. Louis and was an important factor in initiating what is now a nationwide chain of societies under the National Travelers Aid Association.

It needs to be said that many restricted funds are presently managed efficiently and serving useful ends. The danger does not lie in concentrating program on particular needs or projects, which is also the policy of the general research foundations, but in rigid restrictions freezing that concentration for a long period, or perpetually.

Education has been a particular favorite among donors specifying purpose. Where the whole field of education has been embraced, little or no danger of obsolescence exists, and the foundation may develop a broad program, as did Rockefeller's General Education Board. But frequently funds are limited to scholarships or student loans, often with still other qualifications. For example, the LaVerne Noyes Scholarship Fund was set up in 1919 to express the donor's "gratitude to, and in a slight degree to reward, those who ventured the supreme sacrifice of life for this country and for mankind" in World War I. Since veterans of that war no longer need scholarships, its funds are available to descendants of those who served in the army or navy of the United States in that war. Other funds are limited to a particular college, or specialty, or to persons bearing a particular name, or are loan funds set up under conditions which may now be unac-



ceptable. A separate chapter discusses scholarship funds and their problems in detail.<sup>1</sup>

Most special purpose funds are small, but a few have large endowments. The Edward Drummond Libbey Trust has an endowment of nearly \$16 million; all its net income is paid to the Toledo, Ohio, Museum of Art by terms of the will. The Juilliard Musical Foundation devotes income from funds currently worth more than \$16 million primarily to the support of the Juilliard School of Music in New York City; but this foundation may spend its income broadly in the field of music, and thereby escapes the dangers of narrow limitation.

### *Family or Personal Foundations*

Typically, family foundations are set up by a living person or persons rather than by bequest. The same high tax rates in the upper brackets which now tend to prevent large accumulations of wealth have encouraged, through the provisions for charitable deductions, annual contributions to family foundations. Generally they are initially small, and may have no administrative organization or headquarters other than the office of the donor or of a law firm.

Such foundations have many legitimate and useful purposes. They may serve as a buffer between the giver and the numerous appeals directed to him, permitting time for investigation and planned giving. They may help to level the rate of ordinary giving as between years of high and low income, or they may serve as a reservoir for the accumulation of substantial funds needed for a major project.

Many family foundations serve simply as the channel for the current giving of the living founder. Their programs differ little from the giving of wealthy men and women who have not incorporated their charity. Their beneficiaries probably include the local community chest, hospitals, a few national drives, the donor's college, possibly his church (such giving is more often done personally), and perhaps one or several pet projects. Such funds usually discourage publicity and directory listings, not

<sup>1</sup> See pp. 231-256.

wishing to be flooded with general appeals. As they grow in experience and perhaps in resources, their patterns of giving may change and broaden.

The secrecy which shrouded the operations and even the existence of many of these foundations, and several examples of undoubted abuse, have cast some shadow upon them, and upon foundations in general. During and just after World War II some such foundations were organized primarily to take advantage of loopholes in the tax laws, and had little or no program for social betterment. The Revenue Act of 1950, however, required public reporting, spelled out certain "prohibited transactions" which would result in loss of tax exemption, forbade "unreasonable" accumulations by exempt organizations, and by these and other provisions halted the most severe abuses. Intended and legitimate tax advantages remain, and are later discussed.

Most family foundations are small, and will probably continue so. Where substantial assets are not in sight, spending from capital, with relatively speedy liquidation, is more desirable than the setting up of many small independent perpetuities with too little income for significant work in any year. Moreover, the small foundation that does effective work under the direction and drive of the donor may lose its force when he is gone and his dream grown dim. Exact limits cannot be set, but a foundation with an income of less than \$100,000 a year can scarcely afford the office machinery or continuously attract capable trustees (who usually serve without pay) to spend its money wisely. Smaller funds should be limited in time, or should unite with some larger unit for administration under one of the plans later suggested.

Foundations of the family type, beginning with limited purposes and perhaps small funds, sometimes have grown into the general research class. The example of the Carnegie Foundation's shift in program has been cited. The Ford Foundation, largest of them all, began with many of the characteristics of a family foundation, according to Henry Ford II:

The first phase covers roughly the twelve years from 1936 to 1948. During this time our operations were limited in character. The

foundation during those years was never in a position to spend in any one year much more than about \$1,000,000. Approximately 50 per cent of the grants during those years were made to educational and charitable institutions which had been established some years before by my grandfather and my father . . . a natural thing to have done because certainly the foundation was formed, in part, to provide a convenient means for carrying on the many obligations of the Ford family to education, charity, and scientific progress. . . . During most of the first phase of the foundation's history, the trustees were all associated with the Ford family and company in some way or another. . . .

[But when new, vast funds were in prospect] we thought that the amount of funds that would be available in this public instrument was of such magnitude that it would hardly be right for one family to have the decision as to the distribution, in how they should be spent for educational, charitable, and scientific purposes. . . . In choosing new trustees, the trustees of our foundation have sought out men with wide experience in their respective fields, and with the demonstrated interest in philanthropic activity and with the willingness to devote the great amount of time that is needed to keep abreast of the varied activities of the foundation. We intend to expand the Board still further in the future. We also hope to make the foundation ever more responsive to the public purposes for which it was created.<sup>1</sup>

The Rockefeller Brothers Fund is an example of a foundation that has grown large, but intentionally retains some of the giving characteristics of a family foundation. It was established in 1940 by the five Rockefeller brothers, David, John, Laurance, Nelson, and Winthrop, primarily to simplify the investigation and handling of appeals and coordinate their "citizenship" giving to local, national, and international social service agencies which depend upon the general public for their operating and capital needs. It became interested in certain larger and more individualistic programs, including the broad fields of human relations, international relations, and development of human and natural resources. To assist in expansion of the Fund's program John D. Rockefeller, Jr., donated \$58 million to the corpus in the period 1951-1953. The Fund added two nonfamily trustees and entered upon its

<sup>1</sup> *Hearings Before the Select (Cox) Committee*, Testimony of Henry Ford II, pp. 219-221.

new broad program, but continues to receive annual contributions from the five brothers and to dispense part of its funds in accordance with the earlier concept.<sup>1</sup>

It has been widely believed that in the future few or no large foundations could arise. Alfred P. Sloan, Jr., expressed this opinion recently:

With the impact of the high income taxes and with our present standard of living, I do not see the possibilities of creating these large fortunes which have been the basis of the present foundations. . . . Looking at the long-term future, we cannot, in my judgment, expect an expansion of foundation funds . . . to equal the demand for the type of thing that foundations only can provide. Now, we have either got to look to business or we have got to look to the government. There are no other sources. I often refer to myself as sort of a generation that might be likened to "the last of the Mohicans," if you know what I mean.<sup>2</sup>

This assumption may prove invalid for reasons discussed in the concluding chapter.<sup>3</sup> In the family foundations of today and those still to be created lie possibilities for further large future foundations.

### *Corporation Foundations*

A wave of foundations of a new type has sprung up in the past half-dozen years. These are corporation foundations, "company" foundations, trusts, or funds—under any title, tax-exempt, non-profit legal entities separate from the parent company but with trustee boards consisting wholly or principally of corporation officers and directors, and their purpose, facilitating corporation giving. Their full number is not known, but from a sampling study published in 1952 it was estimated that they might then number some 1,500,<sup>4</sup> and the total is probably greater today.

<sup>1</sup> *Rockefeller Brothers Fund: A Three-year Report*. The Fund, New York, 1954.

<sup>2</sup> *Hearings*, pp. 456-457, 466.

<sup>3</sup> See pp. 334-338.

<sup>4</sup> Andrews, F. Emerson, *Corporation Giving*. Russell Sage Foundation, New York, 1952, p. 101. This book includes a special chapter on Corporation Foundations.

See also *Company-Sponsored Foundations*. Studies in Business Policy, No. 73. National Industrial Conference Board, New York, 1955.



Though early examples of corporation foundations exist, they rose in great numbers only recently. Business corporations have been allowed tax deduction on charitable gifts up to 5 per cent of net income since 1936, but such giving was not heavy until 1945, when it reached \$266 million under the combined persuasions of wartime appeals, an excess-profits tax, and a rising sense of community responsibility on the part of business leaders. It was still later, with an apparent peak in 1952 and 1953, when corporations began in large numbers to organize foundations as the channel for this giving.

Corporation foundations differ in important respects from other types. Unlike the great research foundations (but like many family foundations) they seldom have a substantial corpus, but are more nearly channels for current giving, with just enough reserves to level out the years of low income. However broad their charters, their programs seldom aim at "the welfare of mankind," but only the portion of that welfare that benefits the corporation, its employees, its stockholders, or its business relationships. Legal restrictions on corporation giving have relaxed in recent years, but it may still be necessary under some corporate laws to show a constructive relation between the gift and the interests of the corporation.

In closely held corporations, contributions may come from both the company and from officers and chief stockholders. The Rich Foundation in Atlanta received a small endowment from members of the Rich family but its operating income is mainly from profits of the department store of that name. However, not all giving is done through the Foundation:

The Foundation was organized mainly to differentiate between the constant, recurring calls upon the store and long-range development programs. The store, in the main, still carries these recurring calls from the community and the Foundation gifts thus far have been mainly in the direction of education and health programs.<sup>1</sup>

The Bulova Watch Company Foundation, supported from contributions of the Company and some of its chief officers, built and

<sup>1</sup> Andrews, F. Emerson, *Corporation Giving*, p. 110.

maintains the Joseph Bulova School of Watchmaking in Woodside, Long Island, giving to disabled war veterans free training as watch repairers. In the case of the Henry L. Doherty Educational Foundation, devoted to a scholarship program, Cities Service Company and its employees are the contributors on an approximately matching basis. The Nutrition Foundation, devoted to basic research and education in the science of nutrition, represents still another variation. It has received support from about 90 food manufacturers, related companies, and a few individuals; its board includes both food industry executives and representatives of the public.

Corporation foundations offer substantial administrative advantages. Requests for contributions are channeled to the foundation, relieving business executives of the chores of acknowledging and handling, and reducing the "heat" put upon them by personal solicitors. Such requests can be effectively checked in an office set up for that purpose, under an executive who devotes much or all of his time to such tasks. Budgeting is a simpler matter when all recurring drives and most emergency causes can be provided for with one annual appropriation and it is not necessary that this appropriation be wholly used within a single calendar year.

This flexibility in timing has further uses. Many corporations do not know until nearly the close of their fiscal year what their profit position will be, or—in these years of retroactive tax legislation—what tax rates will apply. For the many companies whose giving is affected by their profit position, amounts cannot be finally determined until profits are known near the end of the year, and then there may not be time for wise philanthropic choices and needed investigation. But if a company foundation exists, the total amount can be turned over to it in one lump sum for more leisurely final disbursement. Moreover, these contributed funds can be accumulated toward a major expenditure, if a desired program so requires.

Corporation foundations, if they are given imaginative direction and freedom to experiment, may become pioneers and pathfinders in corporate giving, finding ways of applying corporate

gifts that will bring increased credit to business and larger benefits to communities.

### *Community Trusts*

Community trusts<sup>1</sup> are a special class of foundations concerned with problems of social welfare but acting under community control in a sense seldom found in the usual philanthropic endowment. Most such trusts are organized within a single city, a few bear the name of a county, and several are statewide. Their funds may often be used more widely than their names would suggest; some are applied even to international purposes.

These trusts admit separate, named funds, designated for specific purposes. Many of them have also "composite" or "combined" funds for the handling of smaller sums. In practically all such trusts, capital gifts or bequests are received and administered as to principal through the trust departments of qualified local banks and trust companies. The income is distributed, together with such portions of the principal as may be authorized in any trust, under supervision and control of a distribution committee of citizens selected for representative character and knowledge of charitable affairs. An important provision is the reservation of power to the distribution committee to transfer to other purposes any funds which can no longer be effectively used for the ends originally designated, thereby avoiding the dangers of rigid perpetuities.

The first such community trust was the Cleveland Foundation established in January, 1914, by Frederick H. Goff, who believed "that better results and greater efficiency could be secured if the management and control of the property dedicated to charitable use in each community could be centralized in one or at most a few governing bodies."

The idea of the community trust was accepted enthusiastically, especially by officers of trust companies, and organizations were set up at the initiative of banks in many towns and cities. Some

<sup>1</sup> A few operate under corporate charters rather than trust agreements, and are properly "community foundations." The trust form is characteristic of the field, however, and will be used in this discussion.

have never attracted any funds, and exist only as paper organizations. Some control only negligible amounts, and their future is uncertain. Growth has been steady, however, though not spectacular, as indicated in Table 5.

TABLE 5. AGGREGATE CAPITAL ASSETS AND DISBURSEMENTS OF COMMUNITY TRUSTS FOR SELECTED YEARS, 1921 TO 1954

*Dollar figures in thousands*

Year	Capital assets	Disbursements	Disbursements as per cent of assets
1921	\$ 7,000	\$ 375	5.4
1924	12,000	400	3.3
1927	16,000	600	3.7
1930	35,390	941	2.7
1933	39,250	1,026	2.6
1936	46,329	1,109	2.4
1939	51,804	1,278	2.5
1942	56,036	1,725	3.1
1945	75,092	2,022	2.7
1948	91,402	3,362	3.6
1951	110,091	5,004	4.6
1954	138,292	9,507	6.9

SOURCES: Data on capital assets and disbursements for 1921-1927 from *Community Trusts in the United States and Canada*, American Bankers Association, New York, 1931, p. 31; data for 1930-1951 from *The First Ten Million: Report for 1941*, New York Community Trust, and later releases of this Trust; data for 1954 from National Committee on Community Foundations.

Chart 2 shows the location of the 98 community trusts in the United States recently reported as having active capital by the National Committee on Community Foundations. As the map indicates, most of these trusts are concentrated in the East, usually in the larger cities. A few have appeared on the West Coast, but the device has taken little root in the Mountain or Prairie States. The renewed efforts of recent years toward expansion of this useful channel for capital gifts and bequests have already resulted in substantial growth, and a large field for future development lies open. Table 14<sup>1</sup> lists four community trusts which already have endowments exceeding \$10 million, with annual disbursements equivalent to those of the larger foundations.

<sup>1</sup> See pp. 108-109.



Policies of distribution committees differ, but the funds of local foundations of the community trust type go more largely to specific local charities and for relieving individual need than to broad social research, as might be expected from their local character and the expressed wishes of many of the donors. However, research does enter into many programs. The Cleveland Foundation in its early years financed the extensive Cleveland Surveys in the fields of education, recreation, and crime; the New York Community Trust administers several funds in such general fields as agricultural research and international scholarships.



CHART 2. GEOGRAPHICAL DISTRIBUTION OF COMMUNITY TRUSTS  
IN THE UNITED STATES

Trustee selection, finances, and distribution problems, in all of which community trusts show significant differences from other foundations, are discussed in the appropriate later chapters.<sup>1</sup> A sample resolution and declaration of trust (for the Mount Vernon, Ohio, Community Trust) appears in Appendix E.<sup>2</sup>

### *Governmental Foundations*

At various times proposals have been made to set up foundations controlled by the United States government and financed by taxation. Science, education, and the arts have been areas

<sup>1</sup> See pp. 65-66; 113-114; 127-128.

<sup>2</sup> See pp. 429-432.

avored for such enterprises. A typical bill was the proposed United States Arts Foundation Act, which included this Declaration of Policy:

SEC. 2. The Congress find that a large and progressively increasing proportion of the people are deprived of the opportunity to view and enjoy living theatrical performances, musical concerts, dance and ballet recitals, hereafter referred to collectively as the performing arts; that the general welfare will be promoted by providing national recognition of the status of the theater and other performing arts as a cherished and valued part of the Nation's cultural resources since colonial days, and as a valued means for the building of morale among the civilian components engaged in production and among the Armed Forces mobilized during the present national emergency, and for the promotion of education, national culture, recreation, aesthetic appreciation, skill in the arts and beneficial utilization of leisure time; that it is desirable to establish a United States Arts Foundation to provide such recognition and also to consider how the presentation to and appreciation by the people of theatrical and other performing arts and productions may best be stimulated, . . . and to take steps appropriate to stimulate such increased and more widespread presentation.<sup>1</sup>

With one exception, bills of this nature have failed to pass, possibly because private foundations and other agencies are already functioning in the areas proposed and a considerable opposition exists to further governmental expansion in the United States.

The exception is the National Science Foundation, established in May, 1950, after several years of sharp debate. Much of this debate hinged upon whether the social sciences, with their explosive issues, should be included. The Act as passed authorizes and directs the Foundation "to initiate and support basic scientific research in the mathematical, physical, medical, biological, engineering, and other sciences,"<sup>2</sup> leaving the social sciences unmentioned but capable of inclusion under "other sciences." The program to date has concentrated on the physical and biological sciences.

<sup>1</sup> H.R. 5330, pp. 1-2. Introduced May, 1953, 83d Congress, 1st Session.

<sup>2</sup> National Science Foundation Act of 1950, sec. 3.

Instead of the \$122 million annually as originally proposed for this Foundation by Vannevar Bush in 1945, the bill as passed limited annual appropriation to a maximum of \$15 million, and the actual appropriation for fiscal year 1951 was only \$225,000, with \$3.5 million for 1952. But for fiscal 1954 the appropriation was raised to \$8 million, and the original Act was amended to remove the \$15 million ceiling. The 1956 appropriation was \$16 million. This Foundation now has a budget (but no corpus) greater than any but the two largest private foundations. The bottleneck in basic research is now declared to be "lack of men and women who have the capacity, the interest and the willingness to pursue science."

The Board of the Foundation recognizes the peculiar situation of this tax-supported organization. Its chairman has recently declared:

The National Science Foundation Act of 1950 authorizes and directs the Foundation "to develop and encourage the pursuit of a national policy for the promotion of basic research and education in the sciences." Except for certain specified operating functions, the Foundation is essentially an authoritative advisory body, potentially capable of securing factual knowledge and advisory opinion, that makes its advice authentic but not determinative. Whom does it advise? Obviously, the President and the Congress; but also, through publication and consultation, other agencies and institutions, public and private, and individuals. The point to these observations is that the Foundation can neither police nor direct activities of other agencies, of academic institutions, of industrial research, or of individual scientists.

The Board believes it important to emphasize this view, because there is, on one hand, a natural tendency to utilize the Foundation for secondary purposes and immediate administrative convenience and, on the other, a fear that the interposition of government in science will lead to attempts to dominate science and thus to destroy it. The Board is aware of these dangers. It believes that its major function is to operate so as to minimize both dangers. But we realize that a new era has come when the interest of governments and of societies in the development of science is great and the need exists for large financial support to scientific research and for the development of adequate numbers of scientists.<sup>1</sup>

<sup>1</sup> "Foreword" by Chester I. Barnard in *Third Annual Report of the National Science Foundation*, for Year Ending June 30, 1953. Government Printing Office, Washington, 1953, p. vii.

The nature and relative emphases of the present program are indicated by the 1955 obligations shown in Table 6.

TABLE 6. NATIONAL SCIENCE FOUNDATION OBLIGATIONS FOR FISCAL YEAR 1955

*Dollar figures in thousands*

Total	\$12,511
National science policy studies	915
Grants for support of research	8,021
Grants for training of scientific manpower	2,312
Review of research and training programs	465
Scientific information exchange	402
Executive direction and management	396

SOURCE: National Science Foundation.

The Foundation has recently been charged with an attempt to discover total expenditures in the United States for scientific research, basic and applied, and by the chief divisions of science. Foundation contributions in this field, detailed in Chapter 10, were compiled by Russell Sage Foundation in cooperation with the National Science Foundation as a portion of this project.

## Setting Up a Foundation

WHEN A DECISION has been reached to set up a foundation, certain choices must be made. Some of these involve value judgments as to purposes and policy; others, matters of procedure; and still others, legal form, tax exemption, and precise statutory requirements. This chapter undertakes a brief summary of the choices available, some record of past experience, and an outline of pertinent legislative requirements. It does not attempt to cover all the intricacies of the law, subject to wide variation in the several states. The intending founder should have skilled legal advice, tailored to his needs and local jurisdiction.

### *The Donor*

Foundations may be set up by an individual, a family, a corporation, an association, or any combination of these. In the community trust type of foundation the moving spirit is usually a bank or a group of banks. In addition, most general foundations are permitted by charter to receive further contributions from any source, not only from the original donor.

Historically, the early pattern was for a wealthy individual to set up a foundation, often bearing his own name, with a substantial original endowment, to which he might make later contributions during his life or by his will. The example of Andrew Carnegie is illustrative.

Mr. Carnegie was born in Scotland, but came to America as an immigrant at the age of nine. By the time he was thirty-three and



was receiving an income of \$50,000 a year he made a memorandum, found after his death, in which he pledged himself to devote his annual surplus wealth to benevolent purposes.<sup>1</sup> He continued to acquire that surplus wealth at an amazing rate, until 1901, when he sold the Carnegie Company to the newly formed United States Steel Corporation for approximately half a billion dollars. Somewhat earlier he had expressed what came to be known as his "gospel of wealth."<sup>2</sup> "The millionaire," he said, "will be but a trustee for the poor, intrusted for a season with a great part of the increased wealth of the community, but administering it for the community far better than it could or would have done for itself. . . . The man who dies thus rich dies disgraced." He had no intention of falling into the old error of distributing his wealth to relieve individual need, unrelated to any plan for helping the individual to better himself. "The best means," he said, "of benefiting the community is to place within its reach the ladders upon which the aspiring can rise."<sup>3</sup>

Mr. Carnegie began with a program of personal giving, much of it in the form of library buildings, conditioned on the community providing the site and guaranteeing an annual maintenance fund of not less than 10 per cent of the building costs.<sup>4</sup> But such "retail" giving was not enough; to handle larger sums and unified programs he began setting up a series of endowments, which finally numbered six in the United States as well as several in the British Isles. In 1896 came the Carnegie Institute of Pittsburgh, which comprises a museum of arts, a museum of natural history, a music hall, and a distinguished engineering school, the Carnegie Institute of Technology. In 1902 he established the Carnegie Institution of Washington, for scientific research. Third came the Carnegie Hero Fund Commission in 1904. The next

<sup>1</sup> Hendrick, Burton J., *The Life of Andrew Carnegie*. Doubleday, Doran and Co., New York, 1932, vol. 1, p. 147.

<sup>2</sup> Published as a separate paper in 1889 in *North American Review* under the title "Wealth." Later published as *The Gospel of Wealth, and Other Timely Essays*. Century Co., New York, 1900.

<sup>3</sup> *Ibid.*, pp. 18-19.

<sup>4</sup> By the time of his death in 1919, the total was 2,811 library buildings at a cost of \$60,364,809. *A Manual of the Public Benefactions of Andrew Carnegie*, Carnegie Endowment for International Peace, Washington, 1919, pp. 297, 311.



year he established the Carnegie Foundation for the Advancement of Teaching, primarily as a pension fund for college teachers. The fifth was the Carnegie Endowment for International Peace, set up in 1910 to "hasten the abolition of international war."

These five endowments were each directed toward particular and definite needs which impressed the donor at the time. To each he gave a substantial initial endowment (in three cases \$10,000,000) usually with later additions. But even such wholesale giving was not enough. In 1911 Mr. Carnegie established the Carnegie Corporation of New York with an original endowment of \$125 million, and this time for broad purposes. It was the incorporation of Mr. Carnegie as philanthropist.

A few wealthy donors had set up foundations before Andrew Carnegie; many followed him.<sup>1</sup> The Pittsburgh steelmaker turned philanthropist was a dramatic figure on the world stage, and he had the ear of the wealthy men of his time. John D. Rockefeller's first foundation, the General Education Board, was chartered in 1903, with Mr. Carnegie an active trustee. Other incorporations, too numerous to be mentioned here, followed rapidly.

As foundations began to prove their worth as channels for effective giving, the donor pattern broadened. Persons with smaller sums to contribute began to think in terms of foundations, some of them setting up individual endowments which were often too small for continuing efficient operation, others going into the newly invented community trusts, others establishing foundations built up by joint contributions from family members and perhaps a closely held business corporation. Business firms themselves began to set up foundations, particularly in the high tax years of World War II and afterwards. Trade associations, fund-collecting organizations, even charity racketeers borrowed the prestigious name and announced "foundations," though in several of these groups the founder obviously intended to be beneficiary rather than donor.

<sup>1</sup> For historical notes on foundations see Hollis, Ernest V., "Evolution of the Philanthropic Foundation," *Educational Record*, October, 1939; Harrison, Shelby M., and F. Emerson Andrews, *American Foundations for Social Welfare*, Russell Sage Foundation, New York, 1946, pp. 11-24.

*Concerning Motives*

Because the mushroom growth of foundations in the past decade has in many instances been stimulated by tax considerations, some commentators have concluded that the philanthropic foundation is primarily a shrewd business device by which many taxes can be avoided, estates kept liquid, or business control retained in desired hands, with some general good to justify these financial benefits. Undoubtedly, some foundations have been set up for selfish advantage, and in a few cases represent outright fraud. But to impute such motives to donors generally is to misread history.

Except for a brief experiment during the Civil War, personal income taxes were not levied in this country until 1913, and then at the modest rate of 1 per cent on income exceeding \$20,000, with a maximum of 6 per cent. Moreover, charitable contributions were not allowed as deductions until 1917, so that donors to the older foundations, which include many of the large ones, had no possibility of personal tax savings.

Motives undoubtedly varied, and they are not easy to assign with assurance. We can seldom know all the complex factors that move another person to action, and he himself, with every intention of honesty, may be mistaken in their interpretation. Simple human charity animated some. Others may have had one eye on personal credit, in this world or in the next. A few founders may have been willing to thwart hopeful or aggressive relatives, or to avoid taxes.

During the congressional hearings of 1952 Henry Ford II was asked to comment on the allegation that "the whole scheme and plan of the Ford Foundation was a method whereby the Ford family could retain control of the Ford Motor Company." Mr. Ford replied:

. . . My family had undertaken certain obligations, as I have just described, in the hospital and in the Edison Institute, that they felt they were obligated to keep up, and they were not sure just how that could be accomplished if the country were going to stay in the condition that it found itself in 1933 and 1934.

I think that was one of the reasons they wanted to start this foundation; in other words, to carry on their obligations to charity, as they saw them.

Certainly, there may have been some other reasons, and far be it from me to say that some may not have been to get this stock in one's hands, that may be with the possibility that they could still maintain a certain relationship between their stock and the operations of the company.<sup>1</sup>

Foundations have been used as tax-exempt reservoirs for the rapid accumulation of working capital for business, until the Revenue Act of 1950 made such accumulations grounds for removal of tax exemption. Various business services pointed out the value of family and corporation foundations for accumulating funds in years of high taxation for eventual charitable use, showing how an appreciated asset could be given to such a foundation with an actual increase in spendable income for the donor.<sup>2</sup>

But no one who has examined closely the beginnings of the more important foundations is likely to escape one conclusion: most of their founders were seized by a social vision which stirred them deeply, and which was in many instances a modern expression of religious feeling. The first meeting of Russell Sage Foundation has been described in these words:

On April 19, 1907, the incorporators met in the home of Mrs. Sage, a "brownstone front" opposite St. Patrick's Cathedral, about on the spot where the great bronze Atlas now stands in Rockefeller Center. Mrs. Sage opened the meeting with a prayer "which brought tears to the eyes of all present" and "presided with characteristic dignity." The motto she selected for the Foundation, which is inscribed on the corporation seal, was "Inasmuch as ye have done it unto one of the least of these my brethren, ye have done it unto me."

. . . "I am nearly eighty years old," said Mrs. Sage at the close of the meeting, "and I feel as if I were just beginning to live." Her associates were hardly less affected. Although they had had long experience in large enterprises for the social welfare, this new venture opened before them a vista of unimagined possibilities.<sup>3</sup>

<sup>1</sup> *Hearings Before the Select (Cox) Committee to Investigate Tax-Exempt Foundations and Comparable Organizations*. U.S. House, 82d Congress, 2d Session. Government Printing Office, Washington, 1953, p. 222.

<sup>2</sup> See also *Company-Sponsored Foundations*. Studies in Business Policy, No. 73. National Industrial Conference Board, New York, 1955.

<sup>3</sup> Glenn, John M., Lilian Brandt, and F. Emerson Andrews, *Russell Sage Foundation, 1907-1946*. Russell Sage Foundation, New York, 1947, pp. 17, 20.

*Forms of Organization*

Some of the earliest private foundations were set up by special acts of Congress. A unique example is the Smithsonian Institution, established by act of Congress in 1846 and in some respects a ward of the national government. Its basic fund is deposited in the United States Treasury, at a perpetual interest of 6 per cent guaranteed. Later and additional endowments are invested in general securities. It is governed by a board of regents composed of the Vice-President and the Chief Justice of the United States, three senators appointed by the president of the Senate, three members by the speaker of the House, and six citizen-regents appointed by Congress, two of whom must be residents of the District of Columbia and the other four residents of four different states.

Other early foundations operating under acts of Congress include the General Education Board, a Rockefeller benefaction set up in 1903; the Carnegie Institution of Washington, incorporated under District of Columbia laws in 1902 but two years later incorporated by an act of Congress; and the Carnegie Foundation for the Advancement of Teaching, which was at first incorporated in New York State as simply The Carnegie Foundation in 1905, but received a broader charter and a revised name under an act of Congress in 1906.<sup>1</sup>

The Rockefeller Foundation took an opposite course. In 1910 a bill was introduced into the United States Senate to incorporate The Rockefeller Foundation, practically identical in wording with the charter of the General Education Board granted by the Congress seven years before. But a "storm of protest" arose, various restrictions were proposed, years of delay intervened; and in 1913 The Rockefeller Foundation was incorporated under the laws of New York State.<sup>2</sup>

In recent years substantially all foundations have originated through incorporation under the laws of a particular state or as

<sup>1</sup> Savage, Howard J., *Fruit of an Impulse: Forty-Five Years of the Carnegie Foundation, 1905-1950*. Harcourt, Brace and Co., New York, 1953, pp. 11, 56-59.

<sup>2</sup> Fosdick, Raymond B., *The Story of The Rockefeller Foundation*. Harper and Bros., New York, 1952, pp. 16-20. See also Taylor, Eleanor K., *Public Accountability of Foundations and Charitable Trusts*. Russell Sage Foundation, New York, 1953, pp. 51-52.



unincorporated charitable trusts, under a trust declaration or resolution, or such device as a will, deed, or indenture. These procedures are simpler than involvement in federal legislation, and the present volume of foundation incorporations is far too great for the Congress to consider handling. The Exempt Organizations Branch of the Internal Revenue Service reported issuing in 1952 alone some 14,000 exemption-status rulings, though these covered all "Section 101" organizations, not merely foundations under 101(6).<sup>1</sup>

Table 7 presents data on the legal structure of those foundations for which this information was obtainable in three surveys, published in 1946, in 1954, and in 1955. Complete recent records, particularly for the many small family foundations, are not available, but from the extensive data of the Rich survey it seems clear that incorporation is still the pattern for about three-quarters of all foundations. In a recent study of corporation foundations the National Industrial Conference Board reported that of 141 corporations cooperating in their study, 85 adopted the corporate form for their foundations, 56 established charitable trusts.

Each form has special advantages and limitations which need to be considered.

### *The Charitable Trust*

Charitable trusts are usually easier to organize than incorporated foundations. Legal provisions differ somewhat in various states,<sup>2</sup> but in general trusts may be set up by a simple agreement between donor and trustee; in an *inter vivos* trust the provisions might be known only to the persons immediately concerned, the lawyer drawing up the instrument, and the taxing authorities. Statutes governing charitable corporations are subject to change by the legislature; trust documents are not.

<sup>1</sup> Section 101 under the old Internal Revenue Code covered 19 categories of corporations exempt from taxation; subparagraph (6) covered charitable organizations, including foundations. For the comparable section in the present Code, Section 501(c)(3), see p. 395.

<sup>2</sup> New Hampshire and Rhode Island maintain a registry of charitable trusts and have inspection provisions, but effective supervision is lacking in most jurisdictions. See Taylor, *Public Accountability of Foundations and Charitable Trusts*, for a detailed analysis.

The trustee may be a single person, an institution (frequently the trust department of a bank), or a group of persons with or without an institutional trustee. The trust instrument usually names the first trustee or trustees, and provides for their succession. Where both the purposes and duration of a trust are

TABLE 7. LEGAL STRUCTURE OF FOUNDATIONS AS REPORTED IN THREE SURVEYS

Status	287 foundations 1946		54 large founda- tions, 1954		2,981 foundations 1955	
	Number	Per cent	Number	Per cent	Number	Per cent
Total	287	100	54	100	2,981	100
Act of Congress	4	1	3	6	b	b
Incorporated by states	227	79	37	68	2,262	75
New York	93	32	21	39	976	32
Illinois	a	b	0	0	199	6
Maryland	a	b	0	0	117	4
California	a	b	1	2	116	4
Michigan	10	4	4	7	89	3
New Jersey	a	b	0	0	58	2
Texas	a	b	2	4	55	2
Connecticut	a	b	0	0	53	2
Ohio	a	b	1	2	47	2
Pennsylvania	a	b	1	2	46	2
Wisconsin	a	b	0	0	43	1
Massachusetts	21	7	1	2	36	1
Missouri	a	b	0	0	26	1
Delaware	13	5	1	2	18	1
Other	90	31	5	9	383	12
Trust agreements <sup>c</sup>	27	10	14	26	674	23
Trust also incorporated	b	b	b	b	45	2
Not incorporated; no further data	29	10	b	b	b	b

<sup>a</sup> Fewer than 10; detail not available.

<sup>b</sup> Data not available.

<sup>c</sup> Includes testamentary trusts.

SOURCES: Harrison and Andrews, *American Foundations for Social Welfare*, p. 41; Kiger, *Operating Principles of the Larger Foundations*, pp. 122-125; Rich, *American Foundations and Their Fields*, 7th ed., pp. xvii-xviii.

specific and limited, a single institutional trustee is often a simple and adequate solution. This trustee receives the funds, invests and safeguards them, takes care of legal requirements including audit and annual reporting to the Internal Revenue Service and possibly the state, and disburses the income (together with a portion of the principal, if so provided) to the named beneficiaries.



Where purposes are broader, or the trust is a perpetuity so that even a definite purpose may need alteration with changing conditions, the trustee group is usually expanded. One solution is the community trust, already described.<sup>1</sup> In this case the donor sets up his fund in a bank or trust company of his choice to become a part of the community trust, of which the chosen bank is an institutional member. Thereafter the distribution committee of the community trust, as it receives funds from time to time from the bank, disburses them in accordance with the desires of the donor, with residual power to change this purpose if it becomes impossible or impracticable. As an example of such an arrangement, the Resolution and Declaration of Trust of the Mount Vernon (Ohio) Community Trust is included in Appendix E.

The individual or corporate donor may appoint as his trustees named persons, or the holders of certain named offices. For example, the Eugene Higgins Scientific Trust, set up by Mr. Higgins to advance scientific education and research in natural and physical science in Columbia, Harvard, Princeton, and Yale Universities, names as trustee the United States Trust Company of New York, with distribution of income determined by a Board of Control composed of "the Presidents or corresponding officers" of those educational institutions. Sylvania Electric Products, a Massachusetts corporation, set up The Sylvania Foundation as a corporation foundation in the form of a trust. It has one corporate trustee which "shall always be a corporation organized under the Banking Law of the State of New York or a national banking association organized under the laws of the United States" and personal trustees numbering not fewer than five nor more than eleven who "may but need not be officers or directors of the Grantor." Trustee vacancies shall be filled "by action of not less than two-thirds of the Personal Trustees then in office, with the approval of the Board of Directors of the Grantor."<sup>2</sup>

The Louis W. and Maud Hill Family Foundation represents an extraordinary combination of trust and corporation. The Foundation is itself a stock corporation, so that it may have the flexibility of corporate organization in handling property and

<sup>1</sup> See pp. 32-34.

<sup>2</sup> *Trust Agreement Establishing The Sylvania Foundation*, Art. IV, sec. 4.1.

program; but its directors are not self-perpetuating. They are appointed, and all the stock is held, by the trustees of a trust formed solely for that purpose. These trustees are in turn appointed by that court which, under Minnesota law, has the duty of appointing successor trustees where no other provision is made. This places final responsibility for this fund directed toward community welfare in the hands of officials regularly elected by the community. The device is too new for appraisal.<sup>1</sup>

Combinations of trust and corporation, or a shift from one to the other, are not uncommon. Table 7 records 45 "trusts also incorporated" from the Rich survey. The Helen Hay Whitney Foundation

. . . was organized originally within the framework of a Charitable Trust established in 1943 under deed of Helen Hay Whitney. As the activities of the Foundation increased it became increasingly apparent that this organizational pattern was cumbersome and that operations could be simplified by separating the Foundation from the Trust. Accordingly, on January 11, 1951, The Helen Hay Whitney Foundation (a New York membership corporation) was organized. To this Foundation were transferred both the financial resources and the activities of the Charitable Trust. . . .<sup>2</sup>

Powers and duties of trustees are discussed in a later chapter, but it needs to be noted here, in comparing the trust form of organization with the charitable corporation, that in the trust the trustee is primarily a fiduciary agent with powers narrowly construed as compared with the wider powers of the foundation director; the trustee is personally liable as compared with the foundation director who acts only as a corporate agent; and third parties may prefer to deal with the corporation, which is responsible for most of the acts of its officers and directors, while they have no recourse against trust property if a trustee has acted beyond his powers. In some jurisdictions trusts are not exempt from local property taxes, while charitable corporations are.<sup>3</sup>

<sup>1</sup> Information from letter of A. A. Heckman, executive director of Louis W. and Maud Hill Family Foundation, dated February 10, 1954.

<sup>2</sup> *The Helen Hay Whitney Foundation: Second Report, For the Years 1950-1954.* New York, p. 4.

<sup>3</sup> An extensive discussion of trust vs. corporation is included in Casey, William J., J. K. Lasser, and Walter Lord, *Tax Planning for Foundations and Charitable Giving*, Business Reports, Roslyn, N. Y., 1953, pp. 39-46.

Charitable trusts may qualify for exemption from federal taxation either under Section 501(c)(3) or 642(c) of the Internal Revenue Code.<sup>1</sup> Tests of what is charitable are those generally applied, as described later. But careful distinction must be made between the private trust and the charitable trust. Says George G. Bogert:

In private trusts the benefits to accrue are pecuniary. The cestuis receive money or other articles of property, the use of land or goods, or other financial advantages. The beneficiaries also consist of identified or identifiable individuals, rather small in number. The transaction is a temporary one in which society has no interest, except that an owner shall be able to dispose of his property as he likes, within limits, and that a donee shall be able to enjoy his gift.

In a charitable trust the portion of society to be affected must be larger and the benefit to be transferred must be of a spiritual, mental, physical, or allied type. While money or money's worth may go to certain individuals under the charitable trust, it does not go for the purpose of mere enrichment, but rather to produce a desirable social effect.<sup>2</sup>

Since giving to "indefinite beneficiaries" is a usual characteristic of charitable giving, considerable legislation has been proposed, and some recently passed, looking toward state supervision of charitable trusts. For, as Eleanor K. Taylor points out:

The material self-interest of the beneficiary, which provides the motive and energy for supervision of the trustee's actions in the case of the private trust, cannot be counted upon in the case of charitable gifts, where frequently there is no individual claimant. The rights to be projected are social rights and government protects them. Supervision of the charitable trust is the responsibility of a state official, usually the attorney general.<sup>3</sup>

### *The Incorporated Foundation*

The usual legal framework for foundations in recent years has been incorporation under the laws of a state or territory. Certain

<sup>1</sup> See Appendix B, pp. 395, 407-408.

<sup>2</sup> Bogert, George G., *The Law of Trusts and Trustees*. West Publishing Co., St. Paul, 1953, vol. 2A, sec. 361. See also *Restatement of the Law of Trusts*. American Law Institute, St. Paul, 1935, vol. 2, sec. 374.

<sup>3</sup> *Public Accountability of Foundations and Charitable Trusts*, p. 18. See also Scott, Austin W., *The Law of Trusts*, Little, Brown and Co., Boston, 1939, vol. 3, sec. 391.

relative advantages and disadvantages have been pointed out in the discussion of charitable trusts. The incorporated foundation is somewhat more difficult to initiate and requires continuing attention, but it is a much more flexible instrument than the trust. Within charter limitations, which may be as broad as "the welfare of mankind," it can subsidize or undertake operations of the widest variety by simple action of its board of directors, or trustees, as they may style themselves.

The laws creating and regulating nonprofit corporations differ in the various jurisdictions, with the result that some foundations are incorporated in states other than those in which their main office and chief activities center. In Massachusetts, for example, charitable corporations must have their organization papers reviewed by the department of public welfare, report annually to that department, and in the absence of special legislation their corpus may not exceed \$5,000,000. Texas has no reciprocal statute granting tax exemption on charitable gifts for use outside the state. Therefore a foundation set up by will, or receiving a testamentary bequest, would have to use those sums within the state if they are to avoid state taxation.

### *The Charter*

When the state of incorporation has been determined, it is necessary to get approval of state authorities for a charter, or articles of incorporation. This charter may be granted by an act of the legislature, or by administrative officials under provisions of the general corporation statutes or a special law governing nonprofit corporations. Some of the earlier foundations received their charters by special state legislative enactment, as for example The Carnegie Foundation (before its reincorporation under federal legislation), The Rockefeller Foundation, and Russell Sage Foundation. But with the present development of general state legislation governing creation of nonprofit corporations the nuisance and possible restrictions of a separate legislative act seem unnecessary, and in many states special charter corporations are now prohibited.



When application for incorporation is made through an administrative body, the papers are usually called articles of incorporation. The required content of these articles varies somewhat from state to state, but the following provisions from the Model Non-Profit Corporation Act prepared by a committee of the American Bar Association are typical.

SEC. 29. ARTICLES OF INCORPORATION. The articles of incorporation shall set forth:

- (a) The name of the corporation.
- (b) The period of duration, which may be perpetual.
- (c) The purpose or purposes for which the corporation is organized.
- (d) If the corporation is to have no members, a statement to that effect.
- (e) If the corporation is to have one or more classes of members, any provision which the incorporators elect to set forth in the articles of incorporation designating the class or classes of members and stating the qualifications and rights of the members of each class.
- (f) If the directors or any of them are not to be elected or appointed by one or more classes of members, a statement of the manner in which such directors shall be elected or appointed.
- (g) Any provisions, not inconsistent with law, which the incorporators elect to set forth in the articles of incorporation for the regulation of the internal affairs of the corporation, including any provision for distribution of assets on dissolution or final liquidation.
- (h) The address of its initial registered office, and the name of its initial registered agent at such address.
- (i) The number of directors constituting the initial board of directors, and the names and addresses of the persons who are to serve as the initial directors.
- (j) The name and address of each incorporator.

It shall not be necessary to set forth in the articles of incorporation any of the corporate powers enumerated in this Act.

Unless the articles of incorporation provide that a change in the number of directors shall be made only by amendment to the articles of incorporation, a change in the number of directors made by amendment to the by-laws shall be controlling. In all other cases, whenever a provision of the articles of incorporation is inconsistent with a by-law, the provision of the articles of incorporation shall be controlling.<sup>1</sup>

<sup>1</sup> The complete Model Act is printed in Taylor, *Public Accountability of Foundations and Charitable Trusts*, pp. 150-178.

The articles of incorporation are filed with the secretary of state or other designated official together with such other documents as the particular jurisdiction may require. There may or may not be provision for public notice and a waiting period. After review (which is perfunctory at present in most states) a certificate of incorporation is issued and the foundation is a legal person.

The articles of incorporation are in effect a charter, and not easily amended. Details of operation, therefore, are usually left to be spelled out in by-laws, adopted at the organization meeting. A sample foundation charter is included as Appendix C<sup>1</sup> and the present Constitution of Russell Sage Foundation as Appendix D.<sup>2</sup> A good collection of such documents has been compiled and published by the Carnegie Foundation for the Advancement of Teaching.<sup>3</sup>

### *Statement of Purposes*

The statement of purposes required in the charter has at least two major objectives: it must qualify the organization as a philanthropy entitled to tax exemption and other legal privileges; it should furnish a framework for effective operation.

Qualification as a philanthropy involves the changing definitions of "charity." An act which was passed under Queen Elizabeth I in 1601 was the first important nonreligious definition of charity in English law, and is still widely quoted in English and American decisions in this field. Commonly called the Statute of Charitable Uses (43 Elizabeth, cap. 4) its preamble is worth noting for the variety of charitable purposes there mentioned:

Some for relief of aged, impotent and poor people, some for maintenance of sick and maimed soldiers and mariners, schools of learning, free schools, and scholars in universities, some for repair of bridges, ports, havens, causeways, churches, sea-banks and highways, some for education and preferment of orphans, some for or

<sup>1</sup> See pp. 420-421.

<sup>2</sup> See pp. 422-428.

<sup>3</sup> Chambers, M. M., *Charters of Philanthropies: A Study of Selected Trust Instruments, Charters, By-Laws, and Court Decisions*. Carnegie Foundation for the Advancement of Teaching, New York, 1948.



towards relief, stock or maintenance for houses of correction, some for marriages of poor maids, some for supportation, aid and help of young tradesmen, handicraftsmen and persons decayed, and others for relief or redemption of prisoners or captives, and for aid or ease of any poor inhabitants concerning payments of . . . taxes.<sup>1</sup>

Henry Allen Moe has pointed out<sup>2</sup> that these provisions are almost identical with certain lines in William Langland's *Vision of Piers the Plowman* in which Truth tells erring merchants how they can use their profits charitably to gain religious favor. This pushes the Elizabethan definition back at least two centuries and shows its religious roots.

In general, gifts for the relief of poverty and for support of religion, education, health, or governmental or municipal purposes have been unquestioned. Eleanor K. Taylor observes that the essential element is service to the community, even when approached by contrary paths:

Conflicting views as to what constitutes community benefit have been supported.<sup>3</sup> Trusts to promote peace by disarmament are equally charitable with trusts to prevent war by preparedness. Similarly, the courts do not rule against views on the grounds that the majority of the public would disagree. The fact that a theory has few adherents will not invalidate its acceptance for purposes of charitable giving. These gifts are valid precisely because they are gifts to minority opinion, and thought worthy of encouragement in a free society.<sup>4</sup>

Certain specific legal limitations, chiefly with respect to tax exemption, are spelled out in Section 501(c)(3) of the Internal Revenue Code and are discussed later. But it is clear that a very wide variety of programs in the general fields of health, welfare, education, and religion will be approved as charitable. The immediate question for the donor is whether he shall express broad purposes in the charter or specify particular fields.

<sup>1</sup> Pickering, Danby, *The Statutes at Large*, from the Thirty-ninth of Q. Elizabeth, to the Twelfth of K. Charles II inclusive. Printed at Cambridge University, 1763, vol. 7, p. 43.

<sup>2</sup> John Simon Guggenheim Foundation, *Answers to Questionnaire* of the Select (Cox) Committee to Investigate Tax-Exempt Foundations, New York, 1952, pp. 265-270. Unpublished.

<sup>3</sup> *Restatement of the Law of Trusts*, vol. 2, sec. 374.

<sup>4</sup> *Public Accountability of Foundations and Charitable Trusts*, p. 16.

In the past many donors narrowly limited their gifts to a particular purpose they had in mind. For example, the James Dean Fund, lodged with the Permanent Charity Fund which serves as a community trust in Boston, is a fund of \$10,000, set up to provide for "delivery to the Boston Light Vessel of one copy of each of the principal Sunday newspapers published in Boston, but not exceeding four such papers" on each Sunday from mid-April to mid-October, "thus continuing the practice which I have carried on during many years." With the present development of radio and television, the need of lightships for Sunday newspapers is diminishing, and further improvements in radar and automatic electronic controls may abolish the ships altogether. We have examined in Chapter 1 the narrow-purpose foundations as a group, and have seen that many of them have outlived their purposes or are in danger of doing so.<sup>1</sup>

In some cases donors, aware of their inability to outguess the future, have coupled their statement of a specific purpose with power residing in the trustees to change that purpose if it is accomplished or becomes impractical. Most community trusts insist upon such a provision for all funds they administer.

Current thinking leans heavily toward a broad statement of powers in the articles of incorporation or charter, at least for funds of substantial size and long duration. The Select (Cox) Committee asked the larger foundations whether "you believe that the charters or other instruments creating educational and philanthropic foundations and comparable organizations should specifically describe the type of activity in which the foundation will engage? Or do you feel it is sufficient to indicate the organization's purpose in general terms as 'promotion of human welfare,' 'diffusion of knowledge,' 'betterment of mankind'?" Joseph C. Kiger analyzes the answers:

With few exceptions, foundation opinion has preferred general or broad charters to those that are specific. It is asserted that overly specific charters or deeds of trust have been a perennial cause of complaint by foundation administrators. . . . One foundation official suggested as a possible guide that when the life of the foundation

<sup>1</sup> See pp. 23-26.

was limited, the charter or deed of trust be specific. Conversely, when the foundation was of perpetual or optional type, the general purpose charter or deed of trust could be utilized.<sup>1</sup>

The Samuel S. Fels Fund expressed on this subject this moderate opinion:

While the charter of a foundation should be sufficiently explicit to describe its general character, we do not think that the "purpose clause" should go into too great detail. Our reason for this is that in a highly complex and rapidly changing society a too-detailed purpose clause would limit adaptability as the years go on. However, we think that the terms "promotion of human welfare," "diffusion of knowledge," "betterment of mankind," etc. standing alone are too vague and too general.<sup>2</sup>

Some lawyers, in order to ensure wide powers, have recommended charters spelling out in great detail the powers intended. But this has caused difficulties. For example, the Robert Schalkenbach Foundation, set up in 1925 to advance the ideas of Henry George, especially the "single tax" on land values, included in its certificate of incorporation among its "objects" not only "to secure discussion and consideration of these doctrines and their probable effect upon social welfare," but "to assist in all proper ways to establish the same in practical operation of law." Its exempt status was challenged on the basis of this provision, although the Foundation had not engaged in legislative propaganda. A decision was rendered in favor of the Foundation upon agreement to strike from its charter the phrase "to assist in all proper ways to establish the same in practical operation of law."

Charters, to avoid possible question as to their tax-exempt status, often follow closely the wording of Section 501(c)(3) of the Internal Revenue Code or similar sections in the laws of their state defining a charitable corporation, as does the Charter proposed in Appendix C.<sup>3</sup> If a statement of specific immediate purpose is desired, it may be presented in nonbinding language in a

<sup>1</sup> *Operating Principles of the Larger Foundations*. Russell Sage Foundation, New York, 1954, pp. 29-30.

<sup>2</sup> Samuel S. Fels Fund, *Answers to Questionnaire*, p. 23.

<sup>3</sup> For Revenue Code, see p. 395; for Model Charter, pp. 420-421.

letter of gift, or even an instrument of trust, thereby avoiding dangerous rigidities.

### *Letters of Gift*

Though legally nonbinding, letters of gift are an effective means of expressing the more detailed desires and personal preferences of the donor. Few trustees or directors would violate wishes so expressed, and in the event of court action, such a document would have great weight in determining a donor's intent. Donors have expressed their views through such letters on a wide variety of subjects affecting their foundations, from broad policy admonitions to detailed investment instructions.

The Articles of Incorporation of the Josiah Macy, Jr. Foundation express its purposes broadly, including "the application to charitable purposes of the income of such property as the Corporation may from time to time possess," but Mrs. Kate Macy Ladd accompanied her gift establishing the Foundation in 1930 with a letter stating personal preferences, saying, in part:

Believing, as I do, that no sound structure of social or cultural welfare can be maintained without health, that health is more than freedom from sickness, that it resides in the wholesome unity of mind and body, I hope that your undertaking may help to develop . . . the spirit which sees the center of all its efforts in the patient as an individuality. . . . I hope therefore that the Foundation will take more interest in the architecture of ideas than in the architecture of buildings and laboratories.<sup>1</sup>

Julius Rosenwald used a letter of gift to express his sentiments against perpetuity and to lay down provisions for dissolution of the Julius Rosenwald Fund, which have been followed:

I am not in sympathy with this policy of perpetuating endowments and believe that more good can be accomplished by expending funds as Trustees find opportunities for constructive work than by storing up large sums of money for long periods of time. By adopting a policy of using the Fund within this generation, we may avoid those tendencies toward bureaucracy and a formal or perfunctory attitude toward the work which almost inevitably develop in organizations which

<sup>1</sup> *Twentieth Anniversary Review of the Josiah Macy, Jr. Foundation*. The Foundation, New York, 1950, p. 17.



prolong their existence indefinitely. Coming generations can be relied upon to provide for their own needs as they arise.

In accepting the shares of stock now offered, I ask that the Trustees do so with the understanding that the entire fund in the hands of the Board, both income and principal, be expended within twenty-five years of the time of my death.<sup>1</sup>

Andrew Carnegie, setting up the Carnegie Endowment for International Peace in 1910 as a perpetuity, used his letter of gift both to state his views on how his trustees should go about the speedy abolition of war and to instruct them on further uses for the money. He favored simplified spelling:

I have transferd to you as Trustees of the Carnegie Peace Fund, Ten Million Dollars of Five Per Cent. First Mortgage Bonds, the revenue of which is to be administerd by you to hasten the abolition of international war, the foulest blot upon our civilization. . . . When civilized nations enter into such treaties as named, and war is discarded as disgraceful to civilized men, as personal war (duelling) and man selling and buying (slavery) have been discarded within the wide boundaries of our English-speaking race, the Trustees will pleas then consider what is the next most degrading remaining evil or evils whose banishment—or what new elevating element or elements if introduced or fosterd, or both combined—would most advance the progress, elevation and happiness of man, and so on from century to century without end. . . .<sup>2</sup>

Mrs. Russell Sage first spelled out the nonbinding nature of the instructions in her letter of gift, following this with certain personal preferences for Russell Sage Foundation's activities and detailed instructions on investment policies.

I do not wish by this letter to enlarge or limit the powers given to the Foundation by its act of incorporation, or to impose any other or different duties upon its trustees than are put upon them by this act. It has seemed to me, however, appropriate to express certain desires to which I would wish the trustees of the Foundation to conform so far as they may from time to time deem expedient. . . .<sup>3</sup>

<sup>1</sup> Mr. Rosenwald's letter to the Trustees dated April 30, 1928, from Embree, Edwin R., and Julia Waxman, *Investment in People: The Story of the Julius Rosenwald Fund*. Harper and Bros., New York, 1949, p. 31.

<sup>2</sup> Mr. Carnegie's Letter to the Trustees, from Elliott, Edward C., and M. M. Chambers, *Charters of Philanthropies: A Study of the Charters of Twenty-Nine American Philanthropic Foundations*. Private distribution, New York, 1939, pp. 106, 111.

<sup>3</sup> *Russell Sage Foundation, 1907-1946*, vol. 2, p. 667. Mrs. Sage's proposals concerning investments are discussed on p. 118.

These are examples of a few foundations which have been given direction and individuality through letters of gift although they retain the flexibility of broad charter powers.

### *Tax Exemption and Foundations*

At recent high levels of personal income and corporation taxes, foundations enjoy through tax-exemption substantial advantages of two sorts. The foundation is itself exempt from tax on its investment-type income; this advantage, and conditions under which it may be lost, are discussed in Chapter 4, Finances. Secondly, gifts to a tax-exempt foundation are deductible contributions. This is often important to donors, and in recent years may have been a prime motivating factor in some instances.

The Internal Revenue Code permits the deduction from taxable income of contributions up to 30 per cent of adjusted gross income for individuals (the last 10 per cent must go to regularly operated religious, educational, or hospital organizations), and 5 per cent of taxable net income for corporations. There is no gift tax on property given to foundations, and no estate tax on property left to them. Similar tax advantages prevail in many of the states, but because of the lower rates are less decisive.

These concessions are not "tax loopholes"—though at high tax rates some of them are capable of abuse—but were written into the law to encourage giving, presumably on the grounds that private philanthropy is in the public interest and often relieves the state of specific burdens or expenditures. In some instances this relief is direct and measurable, as when private colleges take care of nearly half the college students in the country. Private support also encourages a variety, independence, and inventiveness which might prove impossible, or at least inappropriate, for institutions and agencies under tax support. But we are here concerned less with the philosophy of tax exemption than with its practical implications for donors.

Under the 1954 federal income-tax rates, an individual with taxable income exceeding \$50,000 is taxed at the rate of 75 per cent on the excess over \$50,000, ascending to the rate of 91 per cent on any excess over \$200,000. Such individuals can there-



fore give to a foundation up to 20 per cent of adjusted gross income at a cost in spendable income of no more, at the respective rates, than 25 cents or 9 cents on the dollar given.

Moreover, in some cases the gift can be made in the form of appreciated assets—stocks, land, or other possessions which have increased greatly in value. If these assets were sold, a capital gains tax of 25 per cent would have to be paid. But, if they are given to a charity, the donor may take as a deduction their current value, without payment of tax on the capital gain. Persons in any income bracket therefore secure a tax advantage through giving an appreciated asset rather than cash; and in the highest tax brackets we reach those examples, dear to the heart of tax consultants, where a wealthy donor can give an appreciated asset and have more money left than if he himself had cashed the asset and given nothing away.

Perhaps fortunately, cases are rare in which giving thus loses its element of personal sacrifice and becomes merely an exercise in tax arithmetic. But tax privileges, legitimately used, are permitting some donors to build up substantial foundations through annual contributions by themselves and perhaps other family members without severe financial sacrifice.

Corporations enjoy somewhat similar advantages in setting up their own foundations.<sup>1</sup> In their case, deductible contributions are limited to 5 per cent of net income, and the 1954 tax rate for corporations with taxed income exceeding \$25,000 is 52 per cent. But some corporations during the excess-profits years were able to accumulate in their foundations charitable funds for later distribution at a net cost to the companies of only 18 cents on the dollar. The rule concerning appreciated assets applies also to corporation gifts, and in some cases they can advantageously give their foundation their own stock.

Setting up a foundation, corporation or private, may be a legal and useful device for retaining control of a business, where retention of all the profits is not essential and a contribution to charity is desired. The Ford Foundation is the most notable

<sup>1</sup> See Andrews, F. Emerson, *Corporation Giving*. Russell Sage Foundation, New York, 1952, pp. 101-112, 253-256.

example. Upon the deaths of Edsel and Henry Ford it was supposed that Ford Motor Company stock would have to come upon the market in order to discharge the heavy estate and inheritance taxes. But the stock had been divided into 10 per cent voting stock and 90 per cent nonvoting, substantially all of the latter going to the previously existing Ford Foundation, which also paid the death taxes on the heirs' estates. The Foundation received in all 3,089,908 shares of Class "A" nonvoting stock, valued at \$135 per share, being the value for estate tax purposes of the last block of shares received. Some of this (250,000 shares) went to the Foundation as early as 1937. In 1944 Mr. Henry Ford gave an additional 1,400,000 shares. In 1947 the Foundation received 1,153,809 shares from Edsel Ford's estate. The final 286,099 shares came in 1950 from Henry Ford's estate, bringing the total book value for all this Class A stock to \$417,137,580. The family retained complete voting control, and the Foundation's equity consists of the right to about 90 per cent of future profits.<sup>1</sup>

Many variations of this pattern are possible. Blocks of stock amounting to about 20 per cent of personal income may be given each year, thereby securing maximum charitable deductions while diminishing the taxable estate. If voting stock is given, the same savings in estate taxes are attained but the voting rights in the foundation's hands may create eventual problems.<sup>2</sup>

### *Securing Tax Exemption*

After the foundation has been formally set up under the laws of any state or of the United States, and even though its charter substantially repeats the "exempt purposes" wording of Section 501(c)(3) of the Internal Revenue Code, it is not automatically exempt from federal taxation. Application for such exemption

<sup>1</sup> As this book goes to press, Ford Motor Company stock is scheduled to be put on public sale. The desire of the Foundation to diversify its investments was a major factor in the decision. A new and much higher valuation of the assets of the Ford Foundation is one anticipated result.

<sup>2</sup> For discussion of foundations and tax problems, see Casey, Lasser, and Lord, *Tax Planning for Foundations and Charitable Giving*; Eaton, Berrien C., Jr., "Charitable Foundations, Tax Avoidance and Business Expediency," *Virginia Law Review*, vol. 35, November and December, 1949; Institute on Federal Taxation of New York University, *One-day Conference on Problems of the Charitable Foundation*, Prentice-Hall, New York, 1953.

must be made, and ruled favorably upon, by the Exempt Organizations Branch of the Internal Revenue Service.

The procedure is not difficult. Form 1023, Exemption Application,<sup>1</sup> is obtained from the office of any district director of internal revenue. It is filled out by "a principal officer of the organization claiming exemption," who is instructed to attach to this application:

- (1) A classified statement of receipts and expenditures during the last complete year of operation;
- (2) A complete statement of assets and liabilities as of the end of the last complete year of operation;
- (3) If incorporated, a copy of your articles of incorporation, or if not incorporated, a copy of your constitution, articles of association, declaration of trust, or other document setting forth your aims and purposes (conformed copies should be furnished);
- (4) A copy of your bylaws or other similar code of regulations;
- (5) A copy of each lease, if any, in which you are the lessee or lessor of property (real, personal, gas, oil, or mineral) or in which you own an interest under such lease, together with copies of all agreements with other parties for development of the property.

The statement of purposes required in this form, which should not "quote from, or make reference to, the articles of incorporation or bylaws," should in some way make it clear that the foundation qualifies for exemption under Section 501(c)(3), which includes:

Corporations, and any community chest, fund, or foundation, organized and operated exclusively for religious, charitable, scientific, testing for public safety, literary, or educational purposes, or for the prevention of cruelty to children or animals, no part of the net earnings of which inures to the benefit of any private shareholder or individual, no substantial part of the activities of which is carrying on propaganda, or otherwise attempting, to influence legislation, and which does not participate in, or intervene in (including the publishing or distributing of statements), any political campaign on behalf of any candidate for public office.

Application for exemption should be made only after twelve full months of operation, since the Treasury Department bases its

<sup>1</sup> See Appendix F for a copy of this form.

decision both upon purpose and actual operation.<sup>1</sup> By a recent ruling designed to simplify and speed up the procedure, the district director is empowered to make the ruling where the facts are clear and do not involve difficult or questionable issues. But until exemption is confirmed, the organization is required to file usual income-tax returns. Meanwhile the donor to the foundation may tentatively treat his contributions to the foundation as charitable deductions, with the recognition that if exemption should be denied, an amended return would be necessary. The foundation's income is technically taxable during the waiting period, but arrangements can usually be made with the district director for deferring any payment, or possibly for deferring the filing of the return, until the ruling on exempt status has been made.

During the probationary year lawyers advise new foundations to make a series of grants, even though substantially all the receipts of the first year consist of gifts which are corpus instead of income, and therefore do not fall under the rule against accumulation. This is necessary to create a record of actual operation. Also, these grants should preferably be made exclusively to agencies already on the Treasury's exempt list,<sup>2</sup> to simplify the exemption decision. Of course, approved foundations may engage in programs much broader than mere contributions to other exempt organizations.

### *State and Local Taxation*

In addition to federal taxation, questions of state and local taxation need to be considered. Because of the many jurisdictions involved and wide variation in the tax laws and court decisions, only broad observations can be included here. In setting up a foundation local legal authorities should be consulted.

Two problems are involved, state succession taxes and both state and local taxes on property subsequently held. With respect

<sup>1</sup> Exceptions to the twelve months operation requirement are sometimes made in behalf of certain organizations of "the community or public type," usually where public contributions are a factor. The ordinary foundation would not qualify. See Rev. Rul. 54-164, Cumulative Bulletin 1954-1, pp. 88 ff.

<sup>2</sup> *Cumulative List: Organizations Described in Section 170(c) of the Internal Revenue Code of 1954.* U.S. Treasury Department, Internal Revenue Service. Government Printing Office, Washington, 1955. 401 pp.



to transfer taxes, gifts to charitable institutions such as foundations are generally exempted from taxation, with limitations in certain states. In some cases testamentary transfers are tax exempt only if given to an organization incorporated within the state and to be used for charitable purposes within the state, as in Texas. In certain states the amount given to charity and exempt from estate tax is limited to a given proportion of the total estate, or to a given dollar amount. In New Jersey a 5 per cent tax is levied on amounts given to charitable institutions exceeding \$5,000.

The situation with respect to property taxes is equally confused. Some states exempt all property held by charitable agencies, others do not exempt the property of "foreign" (out-of-state) corporations, especially if services of such corporations are not rendered to people within the state. Said a Kentucky court with respect to a Tennessee charitable corporation which used rental from a cafeteria owned in Kentucky for a school in Tennessee:

We have uniformly adhered to the fundamental principle on which the right of exemption has always rested, which is that the institution must be rendering an essential service to the people of the commonwealth, thereby relieving to that extent the charge on the general public . . . where an institution, even though it may be of a charitable or educational character, renders no service to the people of this state, its property herein is not exempt from taxation. . . . It is not because the corporation is organized or created in another state, but because the charity is not dispensed here and the educational services are not rendered to the people of this state.<sup>1</sup>

Usually the real property of a foundation is exempt from local property tax if it is used for an exempt purpose, either by the foundation itself or another tax-exempt organization, but property tax must be paid if it is used for a commercial purpose even though the net income is applied to the exempt purposes of the foundation. But this general rule has exceptions, often in the form of special legislation secured by the charitable organization at the time of chartering, and exempting all of its property, however used.

<sup>1</sup> *Layman Foundation v. City of Louisville et al.* (Ky.), 22 S.W. 2d 622 (1929).



## The Board of Trustees

M E M B E R S of the governing board of a foundation may bear a variety of titles, of which *trustees*, *directors*, *members of the corporation*, and *managers* are the most common. For simplicity, *trustee* will be used generally in this study, but with the recognition that in the incorporated foundation the office involves responsibilities for management far beyond the mere conservation of entrusted assets, which is the narrower conception of trusteeship.

### *Legal Status of Trustees*

Entire responsibility for management of a foundation rests with the board of trustees. In an incorporated foundation, the original incorporators are usually the first board of trustees, with power to fill subsequent vacancies and possibly to expand the board. Members of the corporation and the trustees responsible for program are usually identical, though this is not the case in the Louis W. and Maud Hill Family Foundation,<sup>1</sup> and in the Southern Education Foundation the twelve "directors" are supplemented by three additional persons to make up the 15 "members of the corporation." At stated annual meetings some boards distinguish between a brief meeting of the corporation to conduct required business such as elections and the more general session devoted to policy and management. The public—as seekers of funds, as beneficiaries, or merely as interested citizens—may have

<sup>1</sup> See pp. 46-47.

dealings chiefly with professional staff, but in the legal sense the trustees *are* the foundation.

The powers and the liabilities of trustees differ somewhat with the form of organization. In the case of a foundation which is an unincorporated trust, powers are likely to be interpreted narrowly in terms of the trust instrument, with the trustee regarded as intermediary between donor and intended beneficiaries, having personal liability for the safe handling of entrusted funds. Choice of investments is likely to be strictly limited by state law, either to specific lists or by application of the "prudent man" rule. The trustee is personally liable on contracts and commitments or charges of trust violation.

Trustees of incorporated foundations have usually broader powers in both investment and direction of program. Suits may be brought against the corporation instead of individual trustees. In an effort to reduce still further the personal hazards of trusteeship some donors include in the articles of incorporation or other official document a statement to the general effect that no trustee shall be "liable for anything except his own personal and wilful default or misfeasance."

### *Original Selection*

Selection of the first trustees varies somewhat with the type of foundation. In a trust, especially if the purpose is narrow and the funds not large, an institutional trustee such as the trust department of a bank may serve as sole trustee, or with several named persons.

In the family or personal foundation the first board of trustees often includes the donor, if living, and is likely to consist chiefly of members of his family with possibly the addition of close business associates and his lawyer. The Julius Rosenwald Fund is an example:

Like a number of other foundations in their early years, the Fund, from 1917 to 1928, remained largely under the personal control of its founder. The early Board of Trustees consisted solely of his immediate family—himself, his wife, one of his sons, and a son-in-law.

And the contributions continued to represent Mr. Rosenwald's personal philanthropic interests.<sup>1</sup>

The similar personal character of the first boards of the Carnegie Corporation of New York and the Ford Foundation, as well as their later changes, have been noted previously. Mrs. Russell Sage adopted a middle ground; her first board consisted of herself, her lawyer and adviser Robert W. de Forest, three of her personal friends with broad interests, and four others recommended to her for their knowledge in fields of importance to the beginning foundation. The first trustees of The Rockefeller Foundation, also nine in number, included both John D. Rockefeller and his son, but Mr. Rockefeller dissociated himself from decision making. "While in a formal sense he served for a few years as a trustee of The Rockefeller Foundation, he never attended a meeting."<sup>2</sup>

Corporation foundations, being designed to serve as the channel for the gifts of the corporation itself, usually have trustees chosen from the officers and directorate of the parent company. However, if a substantial part of the foundation's activity is to be in the field of employee welfare, an employee representative may be desirable; and one or more public representatives, who may be specialists in some field of particular interest to the corporation foundation, will add breadth of viewpoint and increase public confidence. The American Brake Shoe Foundation includes among its five directors, in order to obtain "an outside point of view," two who are Company directors but not employees of the Company. In the Pittsburgh Plate Glass Foundation all the directors must be chosen from the board of directors of the parent Pittsburgh Plate Glass Company; of the eleven foundation directors at a recent accounting, four were "outside" directors who held no office in the Company.

Community trusts, with multiple donors and special relationship to a particular locality, have still a different problem. The

<sup>1</sup> Embree, Edwin R., and Julia Waxman, *Investment in People: The Story of the Julius Rosenwald Fund*. Harper and Bros., New York, 1949, p. 28.

<sup>2</sup> Fosdick, Raymond B., *The Story of The Rockefeller Foundation*. Harper and Bros., New York, 1952, p. 11.

funds are individually entrusted to a particular bank, which turns over to the community trust the net income (in some cases, also a part of the principal). The community trust has a distribution committee which authorizes disbursements and is in effect its governing board. This committee has usually broad community representation, in the general pattern of the first community trust, the Cleveland Foundation, set up in 1914. Its original resolution provided that:

The Committee to distribute said income shall be residents of Cleveland, men or women interested in welfare work, possessing a knowledge of the civic, educational, physical and moral needs of the community, preferably but one, and in no event to exceed two members of said committee to belong to the same religious sect or denomination; those holding or seeking political office to be disqualified from serving. Said committee shall be selected as follows:

Two by the directors of The Cleveland Trust Company, preferably to be designated from their own number.

One by the Mayor or chief executive officer of the City of Cleveland.

One by the senior or presiding Judge of the Court for the time being having jurisdiction of the settlement of estates in Cuyahoga County.

One by the senior or presiding Judge of the United States District Court for the Northern District of Ohio, or of the Court that may hereafter exercise the jurisdiction of said Court in Cuyahoga County.<sup>1</sup>

The National Science Foundation represents a special case in which the creating law itself provided for a National Science Board of 24 members appointed by the President of the United States with the consent of the Senate together with a director, similarly appointed, who is *ex officio* a member of the Board.

These various modes of original selection have raised questions. Charles Dollard, formerly president of the Carnegie Corporation of New York, had this to say of the donors' friends as trustees:

New foundations tend to have boards composed largely of friends, relatives, and business associates of the donor. This theory works relatively well if the donor was fortunate enough to have intelligent and public-spirited friends and relatives. It works very badly indeed,

<sup>1</sup> Provisions as digested in the Cleveland Foundation's *Answers to Questionnaire* of the Select (Cox) Committee, 1952.

if the admiring survivors who comprise the board believe that time stopped when the donor died, and that no new problems worthy of consideration have arisen since his death.<sup>1</sup>

### *A Trustee Profile*

In an effort to draw a composite portrait of the foundation trustee, biographical data were assembled for all the trustees serving 20 large foundations. The selection was made from the group of larger foundations which supplied *Answers* to the Cox Committee questionnaires, and therefore data represent the situation as of the fall of 1952. In an effort to broaden the sample, a number of relatively smaller family foundations, not located in New York City, were included among the 20, as well as most of the great foundations whose names are household words. But since none with assets substantially below \$10 million was included, this is primarily the portrait of the trustee of a large foundation.

The 20 boards ranged in size from 4 to 25 members, totaling 202 different persons. Actual membership on these boards aggregated 216, but 13 were duplications (the same person serving on two boards) and one had to be eliminated for lack of information.

*Sex.* The typical trustee is a man. Of the 202 trustees, only 14 (7 per cent) were women. Moreover, there were no women among the trustees of 12 of the 20 foundations, though one of these was originally established by a woman and its first board included 4 women among 9 trustees. Six others had one woman member, in five cases the wife or daughter of the donor. One foundation had two women members, neither related to the donor. Finally, the remaining foundation had 6 women trustees, the wife and two daughters of the donor and 3 women not related to him. But even in this case they did not constitute a majority of the 15-person board.

*Relationship to Donor.* In this sample of larger foundations few trustees had a close blood relationship to the donor. Two were the donor himself, three were wives of donors, five were daugh-

<sup>1</sup> Dollard, Charles, "The Country of the Blind." An address at the Milbank Memorial Fund Annual Dinner, November 16, 1950. Multigraphed.



ters, six were sons, and three were grandsons. The donor and his near relatives constituted, therefore, 9.5 per cent of the trustees. An additional four trustees had at some time or other made contributions to their foundations, but in most instances these were nominal. A further case illustrates the possible pitfalls of such statistics. One man, born abroad, was brought up in the home of the donor and made a trustee of his foundation. Since he was never formally adopted, his case does not appear in this tabulation of donor-relatives.

TABLE 8. AGE OF 202 TRUSTEES IN 20 LARGER FOUNDATIONS IN 1952

Age	Number	Per cent	Cumulative per cent
29	1	0.5	0.5
30 to 34	2	1.0	1.5
35 to 39	6	3.0	4.5
40 to 44	12	5.9	10.4
45 to 49	23	11.4	21.8
50 to 54	34	16.8	38.6
55 to 59	37	18.3	56.9
60 to 64	39	19.3	76.2
65 to 69	24	11.9	88.1
70 to 74	6	3.0	91.1
75 to 79	9	4.4	95.5
80 to 84	5	2.5	98.0
85 to 89	4	2.0	100.0

SOURCE: *Answers to Questionnaire* and correspondence.

This picture would differ if the sample had been made up largely of recently formed family foundations. Indeed, most of the blood relatives found in our whole sample were members of the three foundations which could be classified as of the "family" type. One of these had five family members on a board of 15; the second, four on a board of eight; the third, two on a board of five. But as regards all the larger research foundations, no question of family control remains; usually there is not even family representation.

*Age.* Earlier criticisms of foundations as alleged bulwarks of conservatism and the status quo stressed the advanced age of

most of the trustees as an element ensuring conservatism. More recent charges against foundations have been usually in terms of radicalism and change; but most trustees are still in the higher age levels.

Table 8 and Chart 3 indicate the ages of the 202 trustees in our sample from the 20 larger foundations. Only three trustees were below thirty-five years of age, and all were direct descendants of donors. About one trustee in five was below the age of fifty;

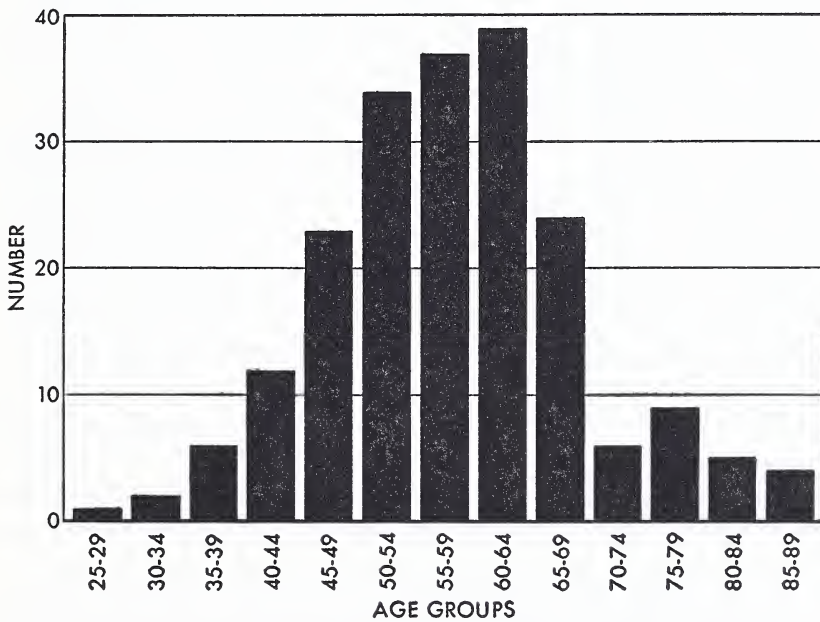


CHART 3. AGE DISTRIBUTION OF 202 FOUNDATION TRUSTEES

nearly half were above sixty years of age. The five-year bracket in which most trustees fell was the 60 to 64 year bracket, which accounted for substantially a fifth of the whole group. Evidently not many men achieve the prominence, and perhaps the acquaintanceships, which bring them invitations to trusteeship until they have passed middle age.

After age sixty-five the number of trustees drops sharply. This is doubtless due not only to deaths and resignations, but to the policy of some foundations, stated or understood, to retire trustees

after age sixty-five. For example, the By-Laws of The Rockefeller Foundation as amended in 1955 stipulate:

SECTION 4. No person shall be eligible for election or re-election as a member and trustee after the June 30th following his 65th birthday, or on which his 65th birthday falls.

But many other foundations have no such retirement policy; in view of recent medical progress in increasing the length of life and effectiveness in later years, so rigid a rule is open to question.

Four trustees in the sample were eighty-five or older. The oldest was eighty-nine when the study was made, and it is known that he has remained active past his ninety-second birthday.

In general, the co-option powers which inhere in most boards and their tendency to continue the reelection of associates results in a gradual increase in age on boards, which may prove a danger. To compare: the Ford Foundation, though first set up in 1936, enlarged its board and entered upon its major program only a few years before the date of this study; the age of its trustees averaged fifty; the Carnegie Corporation of New York, established in 1911, had no trustee under fifty except its president, an ex officio member of the Board; the average age was sixty-three. A few foundations make an effort to meet this problem by regulations, or take pains to elect younger members when the average age is rising. The Research Corporation has a provision in its by-laws requiring that a new nominee shall be not above forty-five years of age if his class (five members are elected annually) has no other member below that age; but this provision may be waived by the Board.

Ages of the trustees in our sample were higher than in the Lindeman sampling of foundation trustees in 1930.<sup>1</sup> He found 39 per cent of trustees above sixty years of age; this study, 43 per cent: the Lindeman study, nearly 11 per cent above seventy years of age; this study, 12 per cent. The median age in the present sample was fifty-eight; Lindeman does not present a median, but the average for his group of trustees was 56.7 years.

<sup>1</sup> Lindeman, Eduard C., *Wealth and Culture*. Harcourt, Brace and Co., New York, 1936, p. 33.

*Education.* The typical trustee is a college graduate. Of the 202 tabulated, 171 trustees were found to have bachelors' degrees, or higher. An additional 15 attended named colleges, and some of them may have received degrees which were not noted. Only 16 (8 per cent) appear not to have attended college. Finally, 137 of these trustees (68 per cent) have received advanced or honorary degrees.

TABLE 9. EDUCATION OF 202 TRUSTEES IN 20 LARGER FOUNDATIONS

Item	Number	Per cent of college graduates	Per cent of all trustees
No college record	16	—	7.9
College; degree doubtful	15	—	7.4
Bachelor degree	171	100.0	84.7
<i>Undergraduate degree from</i>			
Harvard University	32	18.7	15.8
Yale University	30	17.6	14.9
Princeton University	17	9.9	8.4
38 other private colleges	55	32.2	27.2
17 state universities	31	18.1	15.4
U.S. Military Academy	4	2.3	2.0
Foreign colleges	2	1.2	1.0
Total	171	100.0	84.7
Postgraduate or honorary degree	137	75.4 <sup>a</sup>	67.8

<sup>a</sup> Eight recipients of honorary degrees had no recorded undergraduate degree.  
SOURCES: *Answers to Questionnaire, Who's Who in America*, and correspondence.

In this sample, undergraduate degrees concentrate in three colleges. Of the 171 such degrees recorded, 32 were granted by Harvard, 30 by Yale, and 17 by Princeton—a total of 79 from these three schools, or 46 per cent of all the recorded degrees. (If the criterion had been colleges attended, Yale with its 3 additional students who appear not to have received degrees would have nosed out Harvard, which had none in this category.) The remaining 92 degrees were widely scattered, as Table 9 indicates; the highest for any single school was 5 trustee graduates. Sixty-one colleges in all are represented, 41 of which are private colleges in the United States accounting for 78 per cent of the trustees with degrees; 17 state universities and the U.S. Military

Academy, representing partially or wholly tax-supported institutions, accounted for 35 trustee degrees, or about 20 per cent; and colleges in Scotland and Denmark graduated one trustee each.

In contrast with the record for all the trustees, among the 19 such persons who were either donors or their close relatives only 7 had degrees, a ratio of 37 per cent college graduates as compared with the 85 per cent for all trustees.

In compiling these data it became apparent that the trustees of a particular foundation were sometimes all or nearly all graduates of the same college. Various influences may have been

TABLE 10. OCCUPATIONS OF 202 TRUSTEES IN 1952 COMPARED WITH 398 TRUSTEES IN 1930

Occupational class	Present study		Lindeman study	
	Number	Per cent	Number	Per cent
Total	202	100	398	100
Business	74	37	153	38
Law	38	19	67	19
Education and research	29	14	73	18
Philanthropy	18	9	18	4
Publicists	13	6	15	4
Government service	10	5	10	2
Housewives	9	4	0	0
Medicine	6	3	31	8
Arts	3	2	6	1
Religion	2	1	25	6

SOURCES: Present study, *Answers to Questionnaire, Who's Who in America*, and correspondence; Lindeman study, *Wealth and Culture*, p. 38, broken into comparable categories by present author.

at work: geographical proximity, the original appointments of the donor, or a tendency for continuing board members to elect persons known to them, often from college association. Because of such bias from particular foundations in the sample, little significance attaches to groups of four or five trustees from any one college, and this information is not published.

*Occupation.* Table 10 presents data on the occupations of these 202 trustees, and compares them with 398 trustees from the Lindeman sample of 1930.

In both cases business accounts for more than a third of all the trustees, with corporation officers, bankers, and financiers being the chief subcategories. The law has the highest representa-



tion of any profession, about one trustee in five being a lawyer. The broad field of education, including educational administrators (college presidents are numerous), teachers, and research specialists in universities, has fallen off from nearly one in five to one in seven. The relatively high representation for "philanthropy" is due almost entirely to the inclusion of foundation executives in this category; of the 18 persons so listed in the current study, 15 are foundation officials. Publicists—who in the current study are 11 editors and publishers, 1 author, and 1 radio commentator—have increased their representation. Government service includes chiefly persons of cabinet or ambassadorial rank, and three army officers. Housewives are in substantially all cases close relatives or friends of the original donor; the Lindeman data gave no such classification, and it is possible such trustees were not counted. Medicine and religion were not important proportionally in either study, and both have shown a sharp drop. The arts have almost negligible representation.

It is obvious that the trustee group is not representative of American occupations as a whole, certainly not proportionally and not even in variety. The detailed biographies reveal only one farmer (listed under business). No wage laborer or union official appears, no clerical worker, only one salesman. Business and financial management, the law, and education together account for 70 per cent of these trustees.

*Geographical Distribution.* Relative values of having trustees convenient to the central office of the foundation and of having them representative of many sections of the country are later discussed. We present here the factual data on both the present residence and the place of birth of our sample of 202 trustees.

The "residence" column of Table 11 supports previous opinions that a majority of foundation trustees reside in New York and nearby eastern states. Nearly 60 per cent of the trustees in this sample live in three Middle Atlantic states, and about 47 per cent in New York State alone. Only 19 states and the District of Columbia are represented at all.

However, nativity may be a better index to interests and loyalties, and here we find wider geographical backgrounds.

TABLE 11. GEOGRAPHICAL DISTRIBUTION OF 202 FOUNDATION TRUSTEES

Place	Present residence		Place of birth	
	Number	Per cent	Number	Per cent
Total	202	100.0	202	100.0
<i>New England</i>	16	7.9	18	8.9
Connecticut	4		2	
Maine	0		1	
Massachusetts	10		11	
New Hampshire	1		1	
Rhode Island	1		3	
<i>Middle Atlantic</i>	121	59.9	80	39.6
New Jersey	5		7	
New York	94		45	
Pennsylvania	22		28	
<i>East North Central</i>	14	6.9	40	19.8
Illinois	6		13	
Indiana	0		4	
Michigan	7		10	
Ohio	1		8	
Wisconsin	0		5	
<i>West North Central</i>	8	4.0	18	8.9
Iowa	1		2	
Minnesota	6		8	
Missouri	1		4	
Nebraska	0		3	
South Dakota	0		1	
<i>Southern Atlantic</i>	12	5.9	9	4.4
District of Columbia	9		1	
Georgia	0		2	
North Carolina	0		2	
Virginia	3		4	
<i>East South Central</i>	2	1.0	5	2.5
Alabama	0		1	
Kentucky	1		2	
Tennessee	1		2	
<i>West South Central</i>	0	0.0	4	2.0
Arkansas	0		1	
Texas	0		3	
<i>Mountain</i>	7	3.5	8	4.0
Arizona	1		1	
Colorado	6		4	
Idaho	0		1	
Montana	0		1	
Wyoming	0		1	
<i>Pacific</i>	22	10.9	12	5.9
California	22		9	
Oregon	0		1	
Washington	0		2	
<i>Foreign</i>	0	0.0	8	4.0

SOURCES: *Answers to Questionnaire, Who's Who in America*, and correspondence.

Thirty-four states, the District, and 8 different foreign countries are represented. The Middle Atlantic states drop to 40 per cent, and New York state to a more modest 22 per cent.

Limitations of the present sample make detailed comparisons unsafe. For example, it is certain that the mushroom growth of foundations in Texas in recent years has resulted in more foundations and more resident trustees in that state than in Minnesota; but the sample did not include a Texas foundation, but did include one in Minnesota; all of its trustees were born in Minnesota, though 3 now reside in California.

TABLE 12. RELIGIOUS AFFILIATIONS OF 106 FOUNDATION TRUSTEES COMPARED WITH CHURCH MEMBERSHIPS IN THE UNITED STATES

Religious group	United States		Foundation trustees	
	Number	Per cent	Number	Per cent
Total	89,483,000	100.0	106	100.0
<i>Jewish</i>	5,000,000	5.6	7	6.6
<i>Roman Catholic</i>	30,253,000	33.8	4	3.8
<i>Protestant</i>	54,230,000	60.6	95	89.6
Protestant Episcopal	1,690,000	1.9	35	33.0
Presbyterian	3,600,000	4.0	26	24.5
Other Protestant	48,940,000	54.7	34	32.1

SOURCES: Religious statistics, National Council of the Churches of Christ in the U.S.A.; trustee data, this study.

*Religion.* Religious data were available for only 106 of these trustees. Four were Catholic, 7 Jewish, the remainder members of a considerable variety of Protestant denominations. But among these denominations the Protestant Episcopal and Presbyterian (with 35 and 26 members, respectively) predominated, together accounting for nearly two-thirds of the known Protestant trustees. This sample was too small and incomplete to promise much reliability, but it strongly suggests that these two wealthier Protestant denominations are represented among trustees of larger foundations in proportions very far beyond their share of the religious population. Table 12 demonstrates this disproportion.

*Children.* Family data were available for 191 trustees. Only four were unmarried. The remaining 187 trustees reported 474 children, or an average of 2.5 children apiece. Sixteen married trustees had no children; two had as many as 7.

*Summary.* The typical trustee emerging from this composite picture is a man who graduated from one of the eastern Ivy League liberal arts colleges and went into business or law. He now occupies an executive position of importance, is married and has two children; he is an Episcopalian or a Presbyterian, lives in or near New York City, is of enough eminence to be included in *Who's Who*, has accepted membership on the boards of four or five other nonprofit institutions, and is in his early sixties.

In nearly all these characteristics he is closely akin to the trustees of colleges and universities. He differs from the typical corporation director (though frequently he is on the board of one or several corporations) in having more academic background, though he is usually also a man of affairs with a substantial income.

### *Interlocking Trusteeships*

One of the questions raised by the Select (Cox) Committee to Investigate Foundations concerned membership on the boards of other foundations or nonprofit institutions. Unfortunately, the question was ambiguously expressed, so that some foundations interpreted it as requesting the listing of such connections only if the additional institutions were "related" to the responding foundation; others listed for their board all memberships as "trustee, director, or officer" in all other tax-exempt organizations. Because of this misunderstanding comprehensive information cannot be gathered from the *Answers* as a group, but the record of two large foundations may be taken as representative of the distinguished men who accept trusteeship on a foundation of national prominence. Foundation A reported 20 trustees with a total of 113 other positions as trustees or officers of philanthropic organizations, or an average of 5.6 such positions apiece; the range was from 0 to 14. Foundation B reported 14 trustees with a

total of 85 such other appointments, for an average of 6; here the range was from 0 to 13.

Since some of these other organizations are also foundations, complaint has been made that such interlocking trusteeships concentrate great power in a few hands. A further doubt arises as to whether the trustee of perhaps six or more philanthropies can give adequate attention to each of these in addition to his own business. If not, is too much power relegated to professional staff? The Cox Committee explored both of these questions with several foundation representatives, as well as through data obtained from their Questionnaire:

*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.<sup>1</sup>

### *Geographical Diversity*

The fact of heavy concentration of trustees in the Middle Atlantic states has been pointed out, with the modification that data on nativity show substantially wider backgrounds. General Counsel Harold M. Keele of the Cox Committee questioned many witnesses on this geographical concentration during the 1952 Hearings.

Donald Young, the chief executive of Russell Sage Foundation, and Malcolm P. Aldrich, president of the Commonwealth Fund, stressed the advantages of proximity, particularly for trustees serving on committees meeting frequently, such as the executive and finance committees.<sup>2</sup> Marshall Field, president and founder of the Field Foundation, pointed out that "since a great deal of this money was made in Chicago," a good Chicago representation seemed desirable; headquarters are in New York, and "every now and again it is hard for a Chicago director to get out," but attendance at trustee meetings has been "awfully good."<sup>3</sup>

<sup>1</sup> *Final Report of the Select (Cox) Committee to Investigate Foundations and Other Organizations*. 82d Congress, 2d Session. House Report 2514, Government Printing Office, Washington, 1953, pp. 10-11.

<sup>2</sup> *Hearings*, pp. 387, 406-407.

<sup>3</sup> *Ibid.*, pp. 438-439.

Dean Rusk, president of The Rockefeller Foundation, acknowledged that all but four members of his board are from the Atlantic seaboard, adding:

My guess is that the board would wish to continue in broad lines that type of concentration, but on the other hand I feel that the board does consider that some geographical distribution is desirable. . . . We have not considered geographical representation as in itself either a qualification or disqualification for a particular board member, but there is some advantage in having some spread throughout the country. . . . Geographical considerations apparently do not on the basis of our own experience prevent attendance at a reasonable number of meetings through the year.<sup>1</sup>

The Carnegie Endowment for International Peace, partly because of its special interests, does consciously seek to have trustees from various sections of the country:

MR. KEELE: I have observed that the trustees come to a large extent from far places in the country, that you have a wide geographical distribution of your trustees. I should think that at least half of them, or almost one-half of them, come from areas other than the New York-New England district; is that correct?

MR. JOHNSON: It is approximately so, and this is the result of a deliberate policy, a deliberate policy I suspect, although I don't know, instituted by Mr. Carnegie himself. He made an interesting provision which you may have noticed, sir, in his deed of gift. He said that all trustees should not only have their own expenses paid at the meeting of the board, but should be allowed to bring either a wife or a daughter with them to the meeting of the board. This suggests that he was anxious to have broad representation. . . .

It is my own personal and very firm belief that the issues of peace and war are, to a large extent, because of the position of the United States in the world today, dependent upon understanding on the part of all of the people of the United States. It would be a great mistake in my opinion for our foundation to concentrate its trustees and its interests in and around the eastern seaboard.<sup>2</sup>

The conclusions of the Committee, recognizing the reasons for the New York concentration but recommending wider represen-

<sup>1</sup> *Ibid.*, pp. 480-481.

<sup>2</sup> *Hearings*, Testimony of Joseph E. Johnson, president of the Carnegie Endowment for International Peace, pp. 576, 577.

tation, have already been presented. Air travel has now made such representation much more feasible than in earlier years.

### *Election and Term*

The selection of the original board has been discussed. But even if the first trustees have been given life terms, changes sooner or later occur through expansion of the board, resignations, deaths, or in rare cases removals.

Generally speaking, the number of trustees is fixed, or fixed within limits, in the charter, by-laws, or trust instrument. Considerable variety appears among these instruments. In the case of a narrow-purpose trust, where the trustee is no more than the custodian of funds, a single trustee, often an institution, may be sufficient. But where any direction of the affairs of a foundation is involved, three seems the absolute minimum and as many as 50 are permitted in some charters. The Field Foundation's by-laws require not fewer than three nor more than 25 directors; in 1952 this Foundation had 15 directors, of whom five were the donor and his immediate family. The Carnegie Endowment for International Peace provides for a board of 28.<sup>1</sup> The optimum number will vary with the size and purposes of the foundation, but in many cases a board ranging between seven and 12 seems desirable. Smaller boards may give too little range for diverse points of view, occupational interests, and geographical backgrounds, and run the danger of domination by one individual. Very large boards are difficult to assemble, often engage in lengthy debate, and seldom achieve the close personal relationships which should weld boards into efficient, constructive teams. In some states a legal limitation controls.

Terms vary from life to a single year, but there is less difference between these extremes than would appear. In the El Pomar Foundation "the tenure of office of the Trustees is indefinite. They remain in office until they die, resign or are removed, whereupon their successors are elected by the remaining mem-

<sup>1</sup> For further examples of these varying provisions see the table, "The Governing Boards of Thirty-Seven Foundations" in Chambers, M. M., *Charters of Philanthropies*, Carnegie Foundation for the Advancement of Teaching, New York, 1948, pp. 22-29.

bers of the Board.”<sup>1</sup> The Twentieth Century Fund limits the terms of its trustees to a single year; reelection, however, is almost certain unless the member himself refuses further service, and in 1954 two members were entering their thirty-third term. An arrangement that provides continuity in any given year for a majority of the board and yet permits change is to divide membership into three classes, each serving three-year terms expiring in successive years.

In most general foundations the trustees have the power of co-option—the board perpetuates itself by electing its successors. Re-election is customary unless the trustee himself desires otherwise. Said the Twentieth Century Fund:

Those listed who have not resigned or died since their election have been re-elected from year to year at the annual meetings of the Board of Trustees.<sup>2</sup>

But the Julius Rosenwald Fund, no longer in existence, provided against more than two successive three-year terms:

With a view to keeping fresh thinking in the board, the By-Laws provided that no trustee (other than the chairman and president) could serve for more than two successive terms or a total of six years. After an absence of a year or more, a former trustee could be re-elected for periods again not exceeding six consecutive years. Several persons were thus re-elected for a total of fifteen years or more.<sup>3</sup>

Where a vacancy is to be filled, a typical procedure is that of the Carnegie Corporation of New York, thus described:

The vacancies on our board are filled by the sitting trustees. The process usually is that the president goes around first to the chairman and then to all the other trustees and asks them for names of men who they think might make good trustees. These are distributed to the trustees and usually discussed in several meetings informally. In some cases we may keep a list under discussion for a year before we actually make any selections.

Now what we are looking for in trustees is, to use the broad term, men of affairs, that is men who have a concern for the things which

<sup>1</sup> El Pomar Foundation, *Answers to Questionnaire*, p. 3.

<sup>2</sup> Twentieth Century Fund, *Answers to Questionnaire*, pp. 2-3.

<sup>3</sup> Embree and Waxman, *Investment in People*, p. 197.

we are chartered to do, men who themselves are liberally educated, who are humane and who have a concern for the common good, and above all, who are not so encumbered with other trusteeships that they can't give us time, because we ask a great deal of time from our trustees, and the way we are organized it is necessary that we get it.<sup>1</sup>

In several types of foundations, such as community trusts and corporation foundations, co-option may not prevail. As already pointed out, the directing bodies of community trusts may be appointed by holders of named public offices or presidents of named educational institutions. In corporation foundations the trustees may be limited to directors or officers of the corporation, or at least be nominated by officials of the parent corporation.

The Farm Foundation, established for the improvement of rural life, provides in its Trust Agreement for a board of 21 persons, 7 to be chosen at large but the remaining 14 to be "chosen on account of their special experience in different fields of activity and as representing the viewpoints of persons engaged in such fields respectively," with fields specified as follows: five experienced in and representing farming; one each for finance, manufacture, merchandising, transportation, the farm press, and radio as a means of education, and one each from the executive, teaching, experimental, or extension staffs of three land-grant universities or state universities maintaining agricultural departments.<sup>2</sup>

Several general foundations have unusual provisions regarding trustee selection. The by-laws of the Juilliard Musical Foundation require submission of names of all prospective trustees to the executive committees of The Hanover Bank and the Guaranty Trust Company of New York before such persons may be elected to the board. This procedure was requested in the will of Augustus D. Juilliard. The two-step process of trustee selection of the Louis W. and Maud Hill Family Foundation, designed to ensure ultimate control by authorities representative of the public's interest, has already been described.

<sup>1</sup> *Hearings*, p. 327.

<sup>2</sup> *Trust Agreement*, The Farm Foundation, Art. II, sec. 2.



The Richardson Foundation, established by five branches of the Richardson family associated with the Vick Chemical Company, has a method of trustee selection probably unique. Election is for one year only. New trustees are elected by voting rights based upon the dollar value of the respective contributions to the foundation. The intent of this provision is to ensure that future generations will take an interest in philanthropy and this foundation, and meet for this purpose at least once annually. The Foundation is too young for a judgment as to whether these desires will be realized. Such an arrangement would seem to present a danger that effective control may remain, generation after generation, in the hands of single persons who inherit the majority of the voting stock, but may have quite varying interest in, and knowledge of, philanthropic affairs. The tendency among many foundations is toward decreased family controls.

It has been argued that the co-option powers which most boards possess tend to concentrate board membership within a narrow group which will perpetuate and may even intensify the characteristics of the original group. This has not been the usual experience. Boards have tended to broaden their memberships with respect to professional backgrounds and general interest. Said Frederick P. Keppel some thirty years ago:

I hazard the prophecy that the years to come will find, let us call it, a greater variety of light and shade in the makeup of the foundation boards, and I also venture to predict that this will make no particular difference in their policies and progress, but that it will have an important effect by increasing public confidence.<sup>1</sup>

In most foundations provisions exist for the removal of a trustee in case of malfeasance or nonfeasance. Trustees of the Carnegie Endowment for International Peace, though appointed for life, suffer automatic removal upon failure to attend any meetings for three successive years. The W. K. Kellogg Foundation provides in its by-laws:

The members of the corporation by majority vote at an annual or a special meeting may remove any trustee for conduct deemed

<sup>1</sup> "Opportunities and Dangers of Educational Foundations," *School and Society*, December 26, 1925, p. 798.

injurious to the standing, credit or affairs of the corporation, or for unexcused failure of the trustee to attend meetings of the Board of Trustees during a period of three consecutive months, provided the trustee shall first be personally served with the charges, in written form brought against him, and shall be given a fair opportunity to be heard before the members of the corporation in his own defense.<sup>1</sup>

Retirement provisions, usually at age sixty-five, apply to several trustee boards.

### *The Question of Compensation*

As a general rule, trustees of charitable foundations are not paid, except for traveling and other expenses incident to meetings. The Carnegie Corporation of New York in its earliest period paid \$5,000 a year to each trustee, but the trustees themselves soon voted to abandon this payment. The present practice of some of the new and smaller foundations is not known, but most of the larger foundations avoid such payment as unnecessary and open to public misinterpretation. Said Donald Young, at the Cox Committee Hearings:

The direction of a philanthropic foundation, as its operations are normally conducted, should be accepted as a social obligation by people qualified for directorships. Now, I can readily imagine foundations which are so large and require so much of the time of their directors that there should be some compensation. . . . So, I don't think that this is a matter of black or white. . . .<sup>2</sup>

The exceptions, and the reasons behind some of them, are worth noting. The Board of Managers of the Buhl Foundation is authorized "to fix the compensation each shall receive from time to time." The 1951 balance sheet of the El Pomar Foundation shows an item of \$6,000 for salaries of trustees, of whom there were five. The Max C. Fleischmann Foundation of Nevada, a testamentary trust, provides by trust indenture set up by the grantor compensation of \$10,000 a year for its trustees, and the same amount was fixed by the court having jurisdiction.

<sup>1</sup> By-Laws, W. K. Kellogg Foundation.

<sup>2</sup> *Hearings*, p. 388.

The Estate of Harry C. Trexler, functioning still as an estate but with power to incorporate, is understood to pay its trustees the fees usual in estate management. The Indenture of the Duke Endowment provides in Section 2 that "Each trustee shall be paid at the end of each calendar year one equal fifteenth part of three per cent of the incomes, revenues and profits received by the trustees." The Endowment appropriated \$253,408 for trustees' compensation in 1954, making the share of each trustee nearly \$17,000.

The Rhode Island Charities Trust, established by Royal Little in 1937, was amended in September, 1945, when he resigned and his place was taken by three trustees. The amendment provided that the aggregate annual compensation for the three trustees should be 1% of the value of the corpus averaged throughout the year. All income from the Trust which is not distributed is added annually to the principal. The trustees have discretion as to the amount of income distributed to the beneficiary, which is the Providence Community Fund; contributions, begun in 1945, now amount to \$225,000 annually. Payment to trustees, based on corpus, which recently had grown to \$7.5 million, is substantial, and was apparently so set up to encourage the trustees to increase that corpus as rapidly as possible. They were relieved in the trust instrument from the restrictions on most trustees as to relatively safe investments.

The Commonwealth Fund does not pay its trustees. However, the question of compensation was brought up for discussion by Edward S. Harkness when he was president, in the light of his understanding of prevailing British practice. Dwight Morrow and others on his board "advised strongly against it," expressing the opinion that this was a contribution toward social welfare which they themselves should make.<sup>1</sup> But the Fund does pay members of its British Committee of Award, which recommends fellowship applicants, an honorarium of £150 annually. Most foundations similarly pay consultants and special committees for specific services.

<sup>1</sup> *Hearings*, Testimony of Malcolm Pratt Aldrich, president of the Commonwealth Fund, p. 407.

The Ford Foundation pays its trustees \$5,000 a year, which is based on the heavy demands that board membership entails. Most of the directors of the independent funds set up by the Ford Foundation receive \$3,000 a year. These facts were brought out at the Cox Committee Hearings, where Henry Ford II, chairman of the board of the Ford Foundation, testified:

MR. FORAND. Mr. Ford, are the trustees of your organization serving without pay, or are they remunerated?

MR. FORD: No, sir, Mr. Forand; we pay our trustees \$5,000 a year. We feel that this is justified, and they earn a great deal more than that. We feel that they deserve some compensation for the time and effort that they put into our problems.

MR. FORAND. That is a fixed compensation and not based upon the percentage of the assets of the foundation, is it?

MR. FORD. No, sir; it is just a fixed compensation, and we have never changed it, and we have no plans to change it, sir. . . . In the beginning we had no compensation and, as the board became large and the amount of time required, and the amount of effort to be put in by each one of the individual trustees increased . . . we felt that we would not be criticized for such a move.<sup>1</sup>

The Cox Committee counsel, Harold M. Keele, himself raised one persuasive argument for the payment of trustees:

MR. KEELE. Does not the burden of work, and the amount of time involved, coupled with the fact that no compensation is given the trustees, limit your choice of trustees to men of wealth or at least independent means?

MR. DOLLARD. Not in my experience, Mr. Keele; it doesn't. Some of our trustees I suppose would be classed as wealthy. Most of them would not be classed as wealthy, and I can say that in my time in the corporation, fifteen years, we have never asked a man to become a trustee without his accepting. I don't think that the critical factor in getting the trustee is the fact that you will or will not compensate him. I think the critical factor is: Are you doing something which he feels to be sufficiently important so that he will give a lot of his time to it?

MR. KEELE. Of course, he does have to consider the fact as to whether his work or whether his commitments or whether his necessity for earning a living otherwise permit him to do this; doesn't he?

<sup>1</sup> *Hearings*, p. 224. Representative Forand was a member of the Committee.

MR. DOLLARD. Yes; he does. I am just saying in my own experience the fact that we do not compensate our trustees has not limited our choice.<sup>1</sup>

The weight of current opinion is against payment of trustees, though, as Dr. Young indicated, it is not a "black or white" decision. Where the duties are arduous and time-consuming compensation is defensible and may be desirable. Where such duties do not interfere seriously with the ordinary occupation, charitable trusteeship seems a proper voluntary contribution to the general welfare. A nonpayment policy also avoids any suspicion that the foundation may be a device for channeling tax-exempt income to family members or friends of the donor.

### *Organization of the Board*

Boards of trustees follow the organizational pattern of similar boards of corporations and voluntary associations. There is a president, or chairman. In the case of the Carnegie Corporation of New York, there is a chairman of the board of trustees as well as a president; the latter is the salaried head of the Corporation and serves ex officio as a trustee. Usually there are one or more vice-presidents, though in smaller foundations this office is often omitted. A secretary (clerk, recording secretary) and a treasurer (sometimes comptroller, who may be a paid employee) complete the usual officer complement. Customarily, officers are elected annually.

Sessions of the board vary from a single annual meeting to monthly meetings, with three or four regular meetings a year a usual number for the larger foundations. Procedure for calling special meetings is provided. Wide variety exists as to time of the annual meeting, only the summer months being generally avoided. The Carnegie Corporation of New York holds its annual meeting in November; the Carnegie Endowment, in May; the Carnegie Institution of Washington and the Ford Foundation, in December; the Cleveland Foundation, in January; the Duke Endowment schedules at least ten meetings in each calendar

<sup>1</sup> *Hearings*, Testimony of Charles Dollard, formerly president of the Carnegie Corporation of New York, pp. 328-329.



year. The Rockefeller Foundation holds its annual meeting in April; Milbank Memorial Fund, in May; Twentieth Century Fund, on the first Friday in February, or within ninety days thereafter.

Quorums for such meetings vary rather narrowly from a third of the trustees then in office to a majority, with in some cases proxies counted in this majority, in others such votes specifically not counted for a quorum. The Milbank Memorial Fund and Russell Sage Foundation specify four trustees as a quorum, from boards normally of 10 and 12 members, respectively.

A few boards forbid a trustee voting on a project in which he has a personal interest, and the practice is frowned upon generally. The Rockefeller Foundation provides that:

SECTION 18. During the consideration of a proposed appropriation by the board of trustees or a committee thereof, any trustee who is officially connected with the prospective beneficiary shall withdraw from the meeting until the vote has been taken; but his withdrawal shall not be deemed to affect the existence of a quorum.<sup>1</sup>

Foundations with paid professional staff vary in their practice of including a staff member as a voting member of the board. As already noted, the Carnegie Corporation of New York makes its staff head, or president, an ex officio member of the board; until recently this board included four other ex officio seats for the presidents of the Carnegie Institute of Pittsburgh, Carnegie Institution of Washington, Carnegie Foundation for the Advancement of Teaching, and Carnegie Hero Fund Commission. Many foundations, either by charter provision or practice, do not admit professional staff to voting membership. A few have changed their practice in this respect. Russell Sage Foundation provided in its original constitution that the general director should not be a member of the board of trustees; John M. Glenn, an original trustee, resigned after one month's service to become general director; but six years later this restriction was removed, and he served as trustee from 1913 until 1948.

It is certain that the board of trustees and the head of the professional staff must work closely together, and some founda-

<sup>1</sup> By-Laws, The Rockefeller Foundation, 1955.

tions find it desirable that other responsible staff members also meet with the board, with a view to bringing to the board a more intimate knowledge of operations and personnel and stimulating exchange of opinion. With such opportunity for presenting the viewpoint of the staff, actual voting power is probably not important. If granted, it should be restricted to the staff head to ensure continuing control in the hands of an unprofessional board. The Rockefeller Foundation and General Education Board make ineligible to their governing boards any salaried officer except the president.

Since voluntary boards cannot be expected to meet frequently enough to take care of emergency situations, most boards have at least two standing committees, an executive committee and a finance committee. The executive committee is given interim powers to act for the board, though major decisions may require a mail vote or confirmation. Duties of the finance committee are indicated in its name, and properly belong in the next chapter. A few boards have other special committees, as for example, a nominating committee. In the case of The Rockefeller Foundation this committee consists of three trustees elected by ballot at the annual meeting, with a provision that "the president shall not be entitled to notice of meetings of this committee, or to attend and vote thereat."<sup>1</sup>

To govern the action of boards, their officers, and their committees most foundations set up by-laws, differing in few respects from those of other voluntary associations. As one example, the Constitution of Russell Sage Foundation is presented in Appendix D.

### *Creative Trusteeship*

Since ultimate responsibility rests with the trustees, it is of the utmost importance that they become an effective governing body, fully acquainted with the purposes, the past accomplishments, and the potentialities of the organization they direct. A very few donors have set up restrictions which make the trustee function perfunctory, but wide freedom of action is the general

<sup>1</sup> By-Laws, The Rockefeller Foundation, 1955, sec. 54.

pattern. Says the *1951 Annual Report* of the John and Mary R. Markle Foundation:

The men who established the great foundations in America have been broad-gauged and intelligent, with wide interests. That is why their foundations are great. They have realized that a trust must be free to grow, develop and change as the needs of mankind develop and change. They have given their trustees freedom of action, freedom to move with the times. A check of the charters of the foundations which have earned for themselves a place of honor and respect will show that the donors have given the directors few instructions, thereby expressing complete confidence in their judgment. It was the evident intention of these donors to make the words "trust" and "trustee" take on their full and proper meaning.<sup>1</sup>

A nice balance between direction and freedom is preserved in Senator Simon Guggenheim's initial Letter of Gift "to the Trustees of John Simon Guggenheim Memorial Foundation and their successors":

No man of wisdom would seek perpetually to bind you and your successors to fixed plans and methods involving fixed studies, causes, places or institutions. The history of funds for special purposes has shown the folly of attempting to petrify the ideas of the present, and I have no desire to do so; nor do I wish in this letter in any way to limit the power to use this fund conferred upon you and your successors by the charter. Yet it seems to me appropriate that I should indicate to you those general purposes and policies, within the scope of the charter, to which I wish you and your successors to conform as long as is deemed best. If, at some distant time, it seems wisest, in the careful judgment of the Trustees, to change or disregard them, you have here a statement of my wish that you do so; you will conform best to my wishes by using your own good judgment.<sup>2</sup>

The collective "good judgment" depends not only upon the high caliber and creative capacities of the original trustees and their successors, but upon measures taken to weld the board into an efficient body that finds challenge and inspiration in its task. For this purpose a formal annual meeting in an office atmosphere is seldom adequate. Many foundations now arrange evening dinner meetings, or full day or even longer sessions, during which trustees can become better acquainted personally and have time

<sup>1</sup> *1951 Annual Report*, John and Mary R. Markle Foundation, New York, 1952, p. 2.

<sup>2</sup> Senator Guggenheim's First Letter of Gift, March 26, 1925.

for not only the transaction of necessary business but a more leisurely consideration of policies and opportunities. In recent years the Twentieth Century Fund has scheduled more important meetings as two-day sessions at Princeton. The Rockefeller Foundation usually holds two-day sessions at Williamsburg.

Such meetings, and the fuller reporting to trustees as well as the public now customary with many foundations, stimulate the interest and improve the judgment of trustees in their difficult and creative task. However, actual trustee participation in projects or membership on boards of benefiting agencies, while also heightening interest and knowledge, raises severe questions of undue influence and control, which are later discussed.

The long-term usefulness of many boards would be increased if better provisions for change existed. A creative, working board needs new faces with some frequency; and in far too many cases a once effective trustee has either lost his initial interest or has become so absorbed in other activities that replacement is desirable. But the record shows that even with annual elections the almost universal practice is for his fellow board members to vote automatic re-election unless the man himself insists on resignation. Compulsory resignation at age sixty-five removes older members—sometimes fortunately, but also sometimes when their energies are unimpaired and their wisdom needed—but it tends to ensure re-election up to that age.

Directors of a business corporation have annual balance sheets as some measure of their efficiency, and ineffective boards can be upset by a stockholder revolution. Since foundations lack these controls, the trustees should themselves exercise a greater critical judgment on their own membership. The Portuguese word for trustees is *zeladores*—zealots, sticklers, caretakers. The word emphasizes the need to keep the interest of each trustee from lapsing into the perfunctory. To ease the process of replacement and to ensure periodic reappraisal of each board member, some organizations provide for automatic removal after a given period, with the possibility of reelection a year later. Such a provision by the Julius Rosenwald Fund has already been cited. Whatever the device, objective appraisal and the courage to make changes are requirements for effective and creative trusteeship.

## Finances

ADMINISTRATION of any foundation involves two principal functions, handling money and directing program. The relative time spent on these functions depends upon the nature of the organization. In a narrow-purpose foundation the program function may be mere routine; in other foundations investments may be so limited by law or deed of gift that financial choice scarcely exists. But ordinarily both functions are important, and complementary; the usefulness of either depends upon the efficient performance of both.

One of the first financial choices a donor must make, after determining the amount of his original gift, is how this capital shall be treated. From this point of view there are four kinds of foundations: accumulating funds, perpetuities, optional perpetuities, and liquidating funds.

### *Accumulating Funds*

An accumulating fund is one in which none of the principal and not all of the income is spent, at least for a stated period. In early times the theoretical possibilities of accumulation through compound interest attracted many donors. That the more extreme of these hopes involve an economic fallacy can easily be demonstrated:

Let it be assumed that when Julius Caesar invaded Britain just 2000 years ago, he placed the equivalent of a single American dollar on interest, to be compounded annually at the rate of 5 per cent. Ten



years later, at about the time of his death, it would have amounted to the modest sum of \$1.63. In 100 years, 45 A.D., it would have grown to only \$131.50. But in 500 years—445 A.D.—it would have been something more than 39 billion dollars. In 1000 years its value could be expressed only by a figure 22 digits long; today, 2000 years later, the original dollar would theoretically have grown to a worth expressible only by 43 digits.<sup>1</sup>

It is obvious that if compound interest could be regularly secured on any long-term fund it would soon absorb all available investment opportunities, and long before that point was reached society would find some way of limiting or liquidating it. Indeed, such accumulations result in loss of tax exemption since the 1950 Revenue Act, discussed below.

But in earlier foundation history accumulating funds were set up, and several examples are worth mentioning. The most notable are the two funds of Benjamin Franklin, set up in Boston and Philadelphia, with an original contribution in each city of £1,000 sterling, approximately \$5,000, to be lent to "young married artificers" at 5 per cent interest; the first part of each fund (100/131) was to accumulate for 100 years, the remaining part (31/131) for another 100 years. Mr. Franklin estimated that even the smaller second part, running for 200 years, would grow to more than \$20,000,000:

At the end of this second term, if no unfortunate accident has prevented the operation, the sum will be four millions and sixty-one thousand pounds sterling, of which I leave one million sixty-one thousand pounds to the disposition of the inhabitants of the town of Boston, and three millions to the disposition of the government of the State . . .<sup>2</sup>

Mr. Franklin's arithmetic was nearly flawless, but "unfortunate accidents" prevented either fund from approaching his golden dream. The apprentice system died, and soon there were no young married artificers to borrow the money; but the accu-

<sup>1</sup> Harrison, Shelby M., and F. Emerson Andrews, *American Foundations for Social Welfare*. Russell Sage Foundation, New York, 1946, p. 66.

<sup>2</sup> The Will of Benjamin Franklin. Reprinted in *Benjamin Franklin's Autobiographical Writings*, edited by Carl Van Doren. Viking Press, New York, 1945, p. 696.

mulating provision continued through other, though often less profitable, investment.

The Boston experience, out of which grew the Franklin Foundation and Franklin Technical Institute, was the better of the two. The total fund in 1891, the end of the first century, had grown to \$391,169. The first part was not immediately spent; when finally used to construct and equip Franklin Technical Institute, begun in 1906, \$438,529 was available. The second part is in accumulation until 1991, when it is to be divided between Boston and Massachusetts as Franklin specified. By January 1, 1955, this portion of the original sum (less than \$1,200) had grown to \$1,191,886. This is about one third of the amount Franklin anticipated for this period, but an increase of approximately a thousandfold in 164 years is noteworthy.

The long-term Philadelphia fund, which since 1949 may be lent at 4 per cent on Philadelphia real estate to "any properly qualified worker," amounted on January 1, 1954, to \$228,529.

The Duke Endowment is an example of temporary accumulation. Its Indenture provided that 20 per cent of income "shall be retained by said trustees and added to the corpus of this trust as a part thereof for the purpose of increasing the principal of the trust estate until the total aggregate of such additions to the corpus of the trust shall be as much as Forty Million Dollars."

Some funds accumulate through lack of opportunity to spend them. In 1816 a Scotsman gave to the city of Philadelphia, for reasons unknown, the equivalent of \$4,000 to create the John Scott Medal Fund, offering a copper medal and a \$20 premium "to ingenious men and women who made useful inventions." Some 500 awards have thus far been made, the roster including such famous names as Edison, Marconi, Orville Wright, Sir Alexander Fleming, Madame Curie, Nikola Tesla. The permissible cash award was increased to \$800 in 1919 by court action, and up to \$2,000 (though the amount voted has not yet exceeded \$1,000) in 1921. Nevertheless the original \$4,000 stood at \$109,617 on January 1, 1954. The John Scott Medal Fund, like the Philadelphia Franklin Fund, is now under the jurisdiction of the Board of Directors of City Trusts, City of Philadelphia.

The Estate of Harry C. Trexler has an accumulation provision as an investment safeguard, the eleventh clause of Mr. Trexler's will stating that:

In order to further provide for and protect the various charitable bequests herein made and to provide for the contingency of losses in investments made for the benefit of such bequests, I direct that one-fourth of the net income of such remainder shall be accumulated and added to the principal of such remainder.

With a few such exceptions, substantially all important modern foundations spend at least their income. The weight of practice and of social thinking is clearly against suspension of present activities in favor of problematical future needs, or the long gambles of compound interest. If doubts remained, the new legislation has resolved them.

### *The Law Against Accumulation*

During the period of high taxes beginning with World War II some individuals and companies ploughed into new foundations substantial sums of money, spending neither principal nor income. Serious question arose as to whether some of these organizations were serving any social purpose, or merely using their exempt status for business advantage. The Revenue Act of 1950, striking out at various abuses, included a provision denying exemption to organizations of the foundation type, whether trust or corporation, where amounts accumulated out of income in the current and prior years "are unreasonable in amount or duration in order to carry out the charitable, educational, or other purpose or function constituting the basis for exemption. . . ."<sup>1</sup>

There was general agreement with the intent of this law, but its indefinite terms caused wide concern. How would "unreasonable in amount or duration" be interpreted by the Treasury Department or the courts? Not all the questions are yet resolved, but these seem reasonable interpretations.

New gifts to the foundation, even though they may come with some regularity year after year from a living donor or a company,

<sup>1</sup> Formerly sec. 3814. Included in the 1954 Internal Revenue Code, sec. 504(a)(1). See p. 398.

are not accumulations, but additions to corpus. They do not need to be spent, except perhaps in the probationary first year when there may be no other income and actual operation must be demonstrated to secure exempt status.

No foundation is required to spend exactly its income in a given year. Sometimes the amount of that income is not known until nearly the end of the year, appropriation dates vary, and some projects are of a size requiring the income of more than one year. Voted appropriations are sometimes not wholly spent, or not spent at all, because of economies in operation or complete personnel or project failure. Wise spending requires careful planning; it cannot be done in haste. The Treasury Department has shown no tendency to apply the accumulation provision if approximately the total income is spent over a period of years.

A large new foundation would have serious difficulty in organizing an effective program for spending its income in the first year or two. The Treasury Department has recognized this problem, and on request has permitted accumulation for a stated period, sometimes several years, while program is being organized. A further device is possible. The foundation can "subcontract" some of its spending by making a large grant to another organization—existing, or set up for the purpose—functioning in the desired field. The grant constitutes expenditure for the first foundation, but corpus for the second organization. For example, the Ford Foundation set up in 1951 the Fund for the Advancement of Education, with a principal sum of \$7,154,000. Doubtless a primary purpose was administrative efficiency, but also this step permitted the Ford Foundation to record as expenditure the whole \$7 million, plus an additional \$9.5 million early in 1952, while to the Fund for the Advancement of Education these amounts were corpus, with time to investigate the field before it need disburse these sums to final recipients. But such subcontracting would amount to accumulation if the parent organization retains substantial control over the offspring.

Increase in value of a donated asset does not constitute income or "unreasonable accumulation" in terms of the Code, but becomes an addition to corpus. For example, Foundation A is given



stock worth \$1 million. Five years later the market value of this stock is \$2 million. Even if the stock is now sold for \$2 million and the money reinvested, this is a capital gain representing corpus and not "income." Such increases have sometimes been substantial. For example, The Rockefeller Foundation reported in 1948 securities with a ledger value of \$151 million and market value of \$223 million. In 1952 the portfolio had not greatly changed, ledger value having risen only to \$164 million. But market value stood at \$364 million, a gain of \$141 million in four years. Some of this dollar gain, however, does not represent increase in purchasing power; in the same period the consumers' price index rose from 102.8 to 113.5, an increase of 10.4 per cent.

Financial statements treat such capital gains in a variety of ways. The Carnegie Corporation of New York in its *Report for 1953* carries net capital gains to a depreciation reserve, "not available for appropriation." A usual procedure is to include both capital gains and capital losses in the statement of principal account, excluding them from the income account.

The opposite situation, capital loss, presents more difficult problems. Presumably a perpetuity which suffers losses may build back to its original worth from current income. But if Foundation B was set up in a period of inflation with stock worth \$2 million, when deflation comes and this stock has a market value of only \$1 million, may it accumulate income until its net worth again reaches the original \$2 million? Apparently optimistic America has considered only rising values; no Treasury decisions or opinions are available, and presumably a particular situation would be handled on its individual facts.

Treasury rulings on some of these points have been consolidated in Ruling 54-227:

SEC. 39.3814-1 of Regulations 118 provides in part that . . . in determining the reasonableness of an accumulation out of income there will be disregarded . . . gains realized upon the sale or exchange of assets held for the production of investment income (such as dividends, interest, and rents) where the proceeds therefrom are reinvested within a reasonable time in property acquired and held in good faith for the production of income.



[And, on a particular case] *Held*, the accumulation by the organization of its capital gains income and a certain minor part of its annual dividend and interest income for a period of ten years, or less, depending upon the extent of gains income, until past invasions of income producing corpus have been restored, will not be considered unreasonable in amount or duration within the meaning of section 3814 of the Internal Revenue Code, provided the remaining income of the organization is distributed to or earmarked for tax-exempt purposes.<sup>1</sup>

One foundation, in its *Answers* to the Cox Committee questionnaire, pointed to spending controls as potentially one of the principal difficulties foundations face in achieving maximum results:

Laws and rules which would discourage prudent practices in spending and in the establishment of legitimate reserves could become serious difficulties. In prosperous times, foundations should be permitted, if not encouraged, to build up reasonable reserves for expenditure in years of less favorable general economic circumstances rather than be regulated into spending all of each year's income in the year in which it is received.<sup>2</sup>

Whether the Treasury Department would look favorably upon a long-term policy of accumulating income in prosperous periods seems doubtful. But the rule against accumulations need not be feared by the foundation which may fail to spend all its income in given years but proves its good faith for the longer period.

### *Perpetuities*

Foundations which may spend income but not principal are perpetuities, endowed with (theoretical) eternal life. Nearly all of the narrow-purpose trusts and foundations of early history were of this type. As regards trusts, this is one of the important differences between private trusts, which generally are limited to lives in being and twenty-one years, and charitable trusts, which may be created for an indefinite period, or forever. Corporations,

<sup>1</sup> *Internal Revenue Bulletin*, No. 24, June 14, 1954. Government Printing Office, Washington, 1954, pp. 23, 22.

<sup>2</sup> Louis W. and Maud Hill Family Foundation, *Answers to Questionnaire*, p. 30.

whether charitable or noncharitable, are not limited in duration unless by their own charter.

Many present foundations, particularly those established in earlier years, are perpetuities. Though history has demonstrated that perpetuity is a relative term, the idea that a man may in his lifetime create an instrument that may continuously benefit mankind—and be associated with his own name—to the end of time has an enormous attraction.

In some cases perpetuity may have been unintended; Edward A. Filene in presenting certain securities to what is now the Twentieth Century Fund stated in his Letter of Gift that “the income . . . shall be applied . . .”; in a later letter he emphasized that it was not his desire to make the Fund perpetual and gave the trustees power, after 1947, “at their discretion to use the principal as well as the income.”<sup>1</sup>

In a few cases perpetuity applies to some but not all of the gift. Mrs. Sage’s original gift to Russell Sage Foundation permits the spending of income only, but the additional sum received at her death is not so limited. The New York Foundation, with present endowment of about \$16 million at market values, received its funds through four bequests from 1909 to 1934. Only the principal received through the will of Lionel J. Salomon (originally \$2.3 million) is perpetual, the balance being expendable as to both income and principal as determined by the trustees. The trust indenture of the M. D. Anderson Foundation provided that the trustees by unanimous action could spend as much as 25 per cent of the corpus during a period of twenty-five years after the death of Mr. Anderson, but upon expiration of that period “the remaining part of the corpus shall be kept intact and preserved as a permanent and perpetual endowment fund.”<sup>2</sup>

Under some circumstances the perpetuity stipulation may be modified by the courts, through *cy pres* or similar proceedings. When the Carnegie Foundation for the Advancement of Teaching found itself unable to meet from income the promised retire-

<sup>1</sup> Letters to Trustees dated March 30, 1922 and May 4, 1923, quoted in Chambers, M. M., *Charters of Philanthropies*. Carnegie Foundation for the Advancement of Teaching, New York, 1948, pp. 216, 217.

<sup>2</sup> M. D. Anderson Foundation, *Answers to Questionnaire*, p. 2.

ment allowances for college professors, proposals were at various times made that it spend its principal. After many years of heated controversy—Henry S. Pritchett, president of the Foundation, called the proposals “apparently illegal and highly immoral”—a compromise was reached by which under order of the New York State Supreme Court in 1939 the Foundation was enabled to spend the \$5 million of additional endowment given by Mr. Carnegie; it also borrowed, without interest, large additional sums, these borrowings later to be recouped from income.<sup>1</sup>

When the larger foundations were asked by the Select (Cox) Committee whether “any limits should be placed on educational and philanthropic foundations and comparable organizations as to the size of endowment, legal life, right of trustees to spend its capital funds, etc.,” a typical response was that of the Cleveland Foundation:

At the present time the amount of wealth under the control of educational and philanthropic foundations and comparable organizations would appear to be so relatively small as contrasted to the total wealth, both public and private, within the United States as not to indicate any present necessity or desirability of limitation as to size of such endowments. There may be legitimate difference of opinion as to the wisdom of perpetual legal life as applied to such endowments. As is well known, (public) charitable trusts under American law are deemed to be created in perpetuity. Such is the case with private corporations also. Presumably the case for unlimited or perpetual legal life for charitable, educational and philanthropic foundations is as valid as that of perpetual legal life for private corporations. In our opinion, trustees or those in control of philanthropic endowments should have, at least, limited rights enabling them to expend capital funds.<sup>2</sup>

### *Optional Perpetuities*

Foundations which may spend principal as well as income at the discretion of the trustees are sometimes called discretionary or optional perpetuities. A strong recent trend has been away from strict perpetuity toward the optional form; a majority of the

<sup>1</sup> Savage, Howard J., *Fruit of an Impulse: Forty-Five Years of the Carnegie Foundation, 1905-1950*. Harcourt, Brace and Co., New York, 1953, pp. 180-182, 246-250.

<sup>2</sup> Cleveland Foundation, *Answers to Questionnaire*, p. 34.

larger foundations reporting to the Cox Committee were of this type.<sup>1</sup>

The first such provision for a foundation of importance appears to have been that made by George Peabody in his Letter of Gift setting up the \$2 million Peabody Education Fund in 1867 "to aid the stricken South." Wrote Mr. Peabody to his trustees, "I furthermore give to you the power, in case two-thirds of the Trustees shall at any time, after the lapse of thirty years, deem it expedient, to close this Trust."<sup>2</sup> This foundation disbursed its capital, transferring its final balance in 1914 to the John F. Slater Fund which in turn helped set up the Southern Education Foundation in 1937.

John D. Rockefeller, Sr., who is reported to have said that "Perpetuity is a pretty long time," gave the trustees of his foundations the option of spending principal and personally opposed perpetuity for foundations, as did his son. The Rockefeller Foundation has at various times spent substantial sums from capital, but in recent years its stock investments have made such large gains that its assets at market value considerably exceed the original gifts totaling about \$183 million. On the other hand, the \$129 million Mr. Rockefeller gave the General Education Board has now been wholly disbursed and this foundation is in final stages of liquidation.

The Horace H. Rackham and Mary A. Rackham Fund, established in 1934 with a capitalization of \$14 million, disbursed substantially all its funds by 1940. Mr. Rackham's will permitted expenditure of capital as well as income, and the trustees decided that "the best methods of conserving the funds at their disposal would be to provide established agencies with permanent endowments and other facilities."<sup>3</sup>

The Juilliard Musical Foundation permits spending of principal on the affirmative vote of "two-thirds of all those who shall

<sup>1</sup> Kiger, Joseph C., *Operating Principles of the Larger Foundations*. Russell Sage Foundation, New York, 1954, pp. 26-28.

<sup>2</sup> Curry, J. L. M., *Brief Sketch of George Peabody and a History of the Peabody Education Fund through Thirty Years*. John Wilson and Son, Cambridge, 1898, p. 21.

<sup>3</sup> *Horace H. Rackham and Mary A. Rackham Fund, 1934-1940*. Published by the Trustees, Ann Arbor, 1940. Foreword.

at the time be Members of the Corporation," voting at a special meeting announced for consideration of such action.

Senator Guggenheim made his foundation of the optional type, but strongly expressed his preference for perpetuity:

The endowment which I am now making carries with it the expectation that in the ordinary course it will be kept invested and the income applied to the corporate purposes, so that the work and influence of the Foundation will be continuous and permanent; but no limitation is placed upon the lawful authority of the Trustees and their successors to apply the principal of the fund, or any part of it, in case an emergency shall arise which makes a change of policy advisable in the judgment of the Trustees. We are confident that you would not use the power to deplete the principal except in a distinct emergency, and it is our hope that the principal always may be maintained intact.<sup>1</sup>

The capital fund of The A. W. Mellon Educational and Charitable Trust was set up on an optional liquidating basis. In 1946 the trustees "decided upon a policy of distributing all the assets of the Trust, both principal and income, for charitable purposes within the next fifteen years,"<sup>2</sup> with provision for time adjustments either way if required.

### *Liquidating Funds*

In some foundations liquidation, usually within a stated period, is made compulsory or strongly advised. The case against perpetuity has been stated by Turgot,<sup>3</sup> John Stuart Mill,<sup>4</sup> Hobhouse,<sup>5</sup> and many others, but in recent years most forcefully by Julius Rosenwald in instructions to his own trustees, in writings, speeches, and personal advice to fellow philanthropists.

He had a firm belief that the generation which contributed to the making of wealth should be the one to profit by it. He wrote articles,

<sup>1</sup> Simon Guggenheim's first Letter of Gift, March 26, 1925.

<sup>2</sup> The A. W. Mellon Educational and Charitable Trust, *Answers to Questionnaire*, pp. 7-8.

<sup>3</sup> *Œuvres*. Librairie Felix Alcan, Paris, 1913, vol. 1, pp. 584-593.

<sup>4</sup> *Fortnightly Review*, London, April, 1869. Also *Dissertations and Discussions*, vol. 1. William V. Spencer, Boston, 1865, pp. 28-67.

<sup>5</sup> Hobhouse, Sir Arthur, *The Dead Hand: Addresses on the Subject of Endowments and Settlements of Property*. Chatto and Windus, London, 1880.



made speeches, and handled his own giving with a view to destroying the tradition of perpetual trusts and in favor of using funds, capital as well as interest, while needs were apparent and ideas and enthusiasm were fresh and vigorous. He wanted dollars to be spent for clear needs today rather than left to accumulate until they had multiplied even a hundredfold for possible uses in the remote future. . . . Believing that coming generations "will be every bit as humane and enlightened, energetic, and able, as we are," he was content to let them care for their own needs, and he held that the best contribution of a given age was to put the world into as good shape as possible for those who followed.<sup>1</sup>

The Julius Rosenwald Fund was set up "with the understanding that the entire fund in the hands of the Board, both income and principal, be expended within twenty-five years of the time of my death." The Fund came to an end in June, 1948; work remained in various fields of its interest, which it was hoped other foundations or agencies would carry on. But during the period of its active life the Fund was able to spend considerably more than could a perpetuity with similar endowment.

The force of Mr. Rosenwald's arguments and his own example have had undoubted effect. Senator James Couzens accepted the Rosenwald philosophy and stipulated that the \$10 million endowment of the Children's Fund of Michigan must be spent within twenty-five years; his actuaries estimated a level expenditure of \$700,000 a year for this period, with total expenditure amounting to \$17.5 million. The Fund was liquidated in 1954, having spent a total of \$18.5 million.

The Max C. Fleischmann Foundation of Nevada, a trust established in 1951 with a present corpus of about \$10 million, to which will be added another \$45 million on final distribution in 1955, "shall be so managed and administered as to insure the complete disposition of the principal and consequent termination of this Trust within twenty (20) years after the death of Sarah Hamilton Fleischmann, the wife of the grantor."<sup>2</sup> The James Foundation of New York, by express charter provision, must

<sup>1</sup> Embree, Edwin R., and Julia Waxman, *Investment in People: The Story of the Julius Rosenwald Fund*, Harper and Bros., New York, 1949, p. 17.

<sup>2</sup> Article IV of the trust indenture.

terminate twenty-five years from June 4, 1941, and all of the funds held by the Foundation are to be distributed before the expiration of that period. The Houston Endowment, set up in 1937, is scheduled to dissolve in 1987; its articles of incorporation provide that "this corporation shall exist for a term of Fifty (50) years from the date of filing these articles of incorporation."

The Maurice and Laura Falk Foundation, established in 1929, is required to spend all of its funds within thirty-five years. The Samuel S. Fels Fund represents a strong donor-pressure for liquidation, but short of legal requirement. At the organization meeting in 1936

. . . Mr. Fels expressed the hope, without imposing any legal obligation on the directors, that the income and entire principal of the Fund be used within twenty years from the time of his death. In 1949 he advised them that this time might be extended from twenty to thirty or even forty years.<sup>1</sup>

TABLE 13. \$1,000,000 TREATED AS A PERPETUITY AND AS A LIQUIDATING FUND DURING A 25-YEAR PERIOD

Type of fund	With interest at 3 per cent		With interest at 4 per cent		Remaining at end of 25 years
	Available each year	Aggregate available in 25 years	Available each year	Aggregate available in 25 years	
Perpetuity — principal remaining intact	\$30,000	\$ 750,000	\$40,000	\$1,000,000	\$1,000,000
Liquidating fund—ex- penditure level over 25 years	57,428	1,435,697	64,012	1,600,299	—

SOURCE: *Philanthropic Giving*, p. 101.

No final agreement has been reached on the relative merits of the perpetuity with its greater stability, contributing to both the present and the future but in some danger of obsolescence or ineffectiveness, and the policy of liquidation, making larger sums available for a brief term. The purely mathematical relationship is expressed in Table 13.

With principal returning 3 per cent interest, a fund liquidating in twenty-five years could spend during that period nearly twice

<sup>1</sup> Samuel S. Fels Fund, *Answers to Questionnaire*, p. 5.

as much as a perpetuity of the same amount. If 4 per cent can be realized, the relative position of the perpetuity improves. But if interest rates should decline much below 3 per cent, the perpetuity might find its income too small for any effective program. At the close of the quarter century, however, the perpetuity would have its capital intact, but possibly impaired by a severe inflation or other catastrophe. The liquidating fund would have no dollars left, but might bring benefits to later generations by the "social increment" of its larger initial spending. "Real endowments," said Mr. Rosenwald, "are not money, but ideas."<sup>1</sup>

The severe depression of the 1930's, a general decline in interest rates, current monetary inflation, and growing fears of world catastrophe have undermined faith in rigid perpetuities. Even where the donor approves of perpetuity in principle, trustees should be given limited rights to spend capital under pressure of changing circumstances.

### *Types of Investment*

The foundation Plato set up for his Academy had for its investment portfolio agricultural lands and cattle. Modern foundations are more apt to have their holdings in negotiable paper which can be stored in a bank vault, but the problems of management are considerable.

The original holdings are the specific gifts of the donor or the residue of his estate. In some cases the interests of the donor or his family are served by discouraging change, or at least rapid change, in these holdings, as when control of a company is maintained by bequeathing a large part of its stock to a tax-exempt foundation, thereby avoiding forced sale in order to pay estate taxes.

In any event the portfolio is likely to reflect the original gift for a long period. Presumably those investments represent the business judgment of the donor, and if income holds up reasonably well, boards do not make rapid alterations. The donor himself may have expressed vigorous opinion on investment

<sup>1</sup> Rosenwald, Julius, "Trends Away from Perpetuities," *Atlantic Monthly*, December, 1930, p. 749.

policy, or even placed binding restrictions. Stephen Girard, setting up the provisions for Girard College in his will, provided in Article XX that "so far as regards my real estate in Pennsylvania . . . no part thereof shall ever be sold or alienated . . . but the same shall forever thereafter be let from time to time to good tenants, at yearly or other rents, and upon leases in possession not exceeding five years." In this case the restriction turned out most fortunately; thirty years after his death rich coal veins were discovered and began to be mined, and the Board of Directors of City Trusts, City of Philadelphia, now counts the Girard trust worth about \$70 million, in addition to the value of buildings already erected. James B. Duke in setting up the Duke Endowment provided that

. . . said trustees shall not have power to dispose of the whole or any part of the share capital (or rights of subscription thereto) of Duke Power Company, a New Jersey corporation, or of any subsidiary thereof, except upon and by the affirmative vote of the total authorized number of trustees at a meeting called for the purpose, the minutes of which shall state the reasons for and terms of such sale.<sup>1</sup>

These are exceptions. Generally speaking, a major duty of the trustees is to give constant oversight to investments of the foundation, making such changes as from time to time appear to be in the interest of the fund and its beneficiaries. This is not an easy task. It involves many policy questions, such as safety versus income, investment in "social" enterprises, immediate return or the long pull, diversification, hedges against inflation, and the like. Before we discuss some of these issues it may be useful to examine the holdings of some of the larger foundations, both as to total amount and, in a few cases, diversification over the years.

### *Holdings of Larger Foundations*

Table 14 lists, in the order of the size of their assets, the 77 foundations believed to be the largest in 1953.<sup>2</sup> Market value of

<sup>1</sup> *Indenture*, The Duke Endowment, Item III.

<sup>2</sup> See p. 261 for the derivation of the list, and certain qualifications. Additions to the \$10 million or over category by 1955 would include the Longwood Foundation, Moody Foundation, New World Foundation, Fannie E. Rippel Foundation, Sealantic Fund, United States Steel Foundation, Robert A. Welch Foundation.



assets was taken wherever available; while this figure is subject to considerable fluctuation from year to year, ledger value for some of the older foundations would have been wholly unrealistic. The assets of these 77 foundations aggregate \$3 billion; these few foundations probably hold more than half the assets of all foundations. Income for this group as a whole amounted to \$166 million, and their expenditures \$164 million. With some notable exceptions, income and expenditures were nearly in balance.

The rate of income based on assets was 5.5 per cent, but this was due to inclusion in the list of a number of foundations for which no market value of assets was available; list value was in many cases unrealistically low. The 41 foundations that gave market value showed a group average of 4.07 per cent. This may be regarded as the reasonable prospect for investments of the foundation type at this time.

The *assets* concept, borrowed from business practice, has been continued in Table 14 because comparable data were available chiefly on this basis. But for foundations *net worth* would be more significant. Indeed, *assets* may be wholly misleading in the case of a few foundations, usually set up by business corporations, which have title to heavily mortgaged land and commercial properties. For example, the Foley Brothers Store Foundation reported in 1955 assets of \$12.1 million, consisting chiefly of a store building, equipment, and land; but its liabilities, chiefly in interest-bearing bonds, exceeded assets by \$201,232, leaving an actual corpus deficit. It had the apparently handsome income of \$890,333 for 1954-1955, but this was offset by expenses of \$909,060, largely for interest, depreciation, tax on real estate, and other items directly chargeable against income. It made contributions in that year totaling \$6,612. Here the *asset* item, taken alone, would have placed this foundation among the first 60 of the country, though it had in the reporting year no net worth and negligible expenditures. We have arbitrarily excluded from our table of larger foundations this and several other examples where liabilities would eliminate assets or reduce them substantially below \$10 million. The only included foundation with substantial liabilities of this sort is believed to be the Houston Endowment, with



TABLE 14. ASSETS, INCOME, AND EXPENDITURES OF 77 LARGER FOUNDATIONS IN 1953

*Dollar figures in thousands*

Foundation	Date founded	Asset rank	Assets	Income from assets	Expenditures
Total	..	..	\$3,013,561	\$165,996	\$163,681
Altman Foundation <sup>b</sup>	1913	61	11,967 L	256	389
Anderson (M.D.) Foundation	1936	21	31,966 M	1,375	2,488
Association for the Aid of Crippled Children	1900	44	15,506 M	550	745
Avalon Foundation	1940	24	23,447 M	1,071	1,125
Beaumont (Louis D.) Foundation <sup>c</sup>	1933	38	16,829 L	914	972
Benwood Foundation <sup>b</sup>	1944	70	9,466 L	982	844
Board of Directors of City Trusts (Philadelphia)	1869	9	70,165 L	4,659	4,501
Boettcher Foundation	1937	63	11,584 M	517	496
Bok (Mary Louise Curtis) Foundation	1931	72	8,931 M	366	382
Buhl Foundation	1927	52	13,138 L	693	651
Callaway Community Foundation <sup>b</sup>	1943	46	14,540 L	1,236	1,059
Campbell (John Bulow) Foundation	1940	68	9,974 M	436	309
Cannon Foundation <sup>c</sup>	1948	71	9,236 L	565	633
Carnegie Corporation of New York	1911	3	196,007 M	7,572	4,957
Carnegie Endowment for International Peace	1910	30	20,684 M	514	595
Carnegie Foundation for the Advancement of Teaching	1905	48	14,205 M	503	1,749
Carnegie Institution of Washington	1902	10	65,168 M	1,977	1,956
Carter (Amon G.) Foundation <sup>c</sup>	1945	58	12,345 L	1,016	646
Chicago Community Trust	1915	60	12,039 L	481	631
China Medical Board of New York	1928	23	31,216 M	1,116	292
Cleveland Foundation	1914	36	17,702 L	640	571
Commonwealth Fund	1918	7	96,308 M	3,790	3,485
Cullen Foundation <sup>c</sup>	1947	75	4,622 L	911	1,249
Danforth Foundation <sup>d</sup>	1927	73	7,803 L	1,089	148
Donner Foundation <sup>c</sup>	1945	50	13,846 L	733	594
Duke Endowment	1924	5	108,000 L	6,800	5,587
El Pomar Foundation	1937	22	31,290 M	562	736
Falk (Maurice and Laura) Foundation	1929	67	10,745 M	664	778
Fels (Samuel S.) Fund	1936	51	13,296 M	315	575
Field Foundation	1940	57	12,395 M	757	762
Fleischman (Max C.) Foundation of Nevada	1951	69	9,607 M	404	1,825
Ford Foundation	1936	1	520,232 L	48,248	46,860
Ford Motor Company Fund	1949	39	16,459 L	323	4,625
General Education Board	1903	77	884 M	480	4,031
Guggenheim (John Simon) Memorial Foundation	1925	20	31,992 L	1,198	1,192
Hartford (John A.) Foundation <sup>a</sup>	1929	76	3,680 L	1,706	377
Hayden (Charles) Foundation	1937	12	56,124 M	2,001	3,084
Higgins (Eugene) Scientific Trust	1948	19	37,072 M	1,187	1,159

TABLE 14. ASSETS, INCOME, AND EXPENDITURES OF 77 LARGER FOUNDATIONS IN 1953—(Continued)

*Dollar figures in thousands*

Foundation	Date founded	Asset rank	Assets	Income from assets	Expenditures
Hill (Louis W. and Maud) Family Foundation	1934	32	\$19,952 L	\$763	\$577
Houston Endowment <sup>a</sup>	1937	31	20,039 L	2,126	1,617
Hyams (Godfrey M.) Trust <sup>b</sup>	1921	65	11,401 L	692	837
James Foundation of New York <sup>a,c</sup>	1941	15	47,720 M	1,829	2,412
Juilliard Musical Foundation	1920	37	17,162 L	574	548
Kaiser (Henry J.) Family Foundation	1948	45	15,364 L	58	15
Kellogg (W. K.) Foundation	1930	4	109,812 M	4,166	4,252
Kresge Foundation	1924	8	86,233 M	4,338	4,004
Kress (Samuel H.) Foundation <sup>a</sup>	1929	74	6,017 L	2,738	2,575
Ladd (Kate Macy) Foundation	1946	49	13,972 M	552	369
Libbey (Edward Drummond) Trustees	1925	42	15,729 L	670	670
Lilly Endowment	1937	13	53,856 M	1,851	1,939
Macy (Josiah), Jr. Foundation	1930	28	22,856 M	730	486
Markle (John and Mary R.) Foundation	1927	26	25,132 M	965	898
Mayo Association <sup>c</sup>	1919	17	43,478 L	4,890	1,711
Mellon (A. W.) Educational and Charitable Trust	1930	16	43,612 M	1,293	2,251
Mellon (Richard King) Foundation	1947	33	19,891 M	779	537
Milbank Memorial Fund	1905	47	14,452 M	638	616
Miner (William H.) Foundation <sup>a</sup>	1923	54	13,082 L	1,684	1,687
Mott (Charles Stewart) Foundation <sup>a</sup>	1926	40	16,321 L	965	1,927
Nelson (William Rockhill) Trust	1926	64	11,500 L	450	450
New York Community Trust	1923	29	21,423 M	775	1,121
New York Foundation	1909	53	13,030 M	580	607
Noble (Samuel Roberts) Foundation	1945	59	12,171 L	1,024	534
Old Dominion Foundation	1941	34	19,268 M	735	1,351
Olin Foundation	1938	14	52,531 M	2,129	1,094
Pew Memorial Foundation <sup>c,e</sup>	1948	6	104,987 M	1,197	1,136
Research Corporation	1912	56	12,473 M	1,494	998
Reynolds (Z. Smith) Foundation	1936	27	24,837 L	1,103	453
Rockefeller Brothers Fund	1940	11	59,785 L	402	1,211
Rockefeller Foundation	1913	2	318,229 M	17,586	14,523
Sage (Russell) Foundation	1907	41	16,260 M	600	490
Scaife (Sarah Mellon) Foundation	1941	62	11,928 M	425	597
Sloan (Alfred P.) Foundation	1934	18	38,188 M	2,121	2,532
Surdna Foundation <sup>a</sup>	1917	35	18,163 L	1,296	1,020
Trexler Foundation	1934	55	12,892 L	586	481
Twentieth Century Fund	1919	66	10,876 M	551	723
Volker (William) Fund <sup>c</sup>	1932	43	15,643 L	926	767
Woodruff (Emily and Ernest) Foundation <sup>b</sup>	1938	25	27,826 L	1,108	607

<sup>a</sup> From Form 990-A, 1953.<sup>d</sup> From Form 990-A, 1950.

L Ledger value.

<sup>b</sup> From Form 990-A, 1952.<sup>e</sup> Market value from other

M Market value.

<sup>c</sup> From Form 990-A, 1951.

sources.

SOURCE: Russell Sage Foundation survey for National Science Foundation, except as noted.

TABLE 15. CHANGES IN TYPES OF INVESTMENTS AMONG CERTAIN FOUNDATIONS, 1928, 1940, 1953  
Amounts in thousands and at market value

Foundation	Year	Mortgages		Bonds		Preferred stocks		Common stocks		Other investments		Total invested funds
		Amount	Per cent	Amount	Per cent	Amount	Per cent	Amount	Per cent	Amount	Per cent	
Carnegie Corporation of New York	1928	—	0.0	\$146,189	96.9	\$2,074	1.4	—	0.0	\$2,555 <sup>a</sup>	1.7	\$150,818
	1940	\$ 401	0.2	129,952	79.6	3,342	2.0	\$29,324	18.0	332	0.2	163,351
	1953	—	0.0	111,450	59.4	8,587	4.6	67,068	35.8	334	0.2	187,439
Commonwealth Fund	1928 <sup>c</sup>	—	0.0	10,959	27.6	<sup>d</sup>	<sup>d</sup>	28,674 <sup>e</sup>	72.4 <sup>e</sup>	—	0.0	39,633
	1940	—	0.0	11,177	31.9	<sup>d</sup>	<sup>d</sup>	23,780 <sup>e</sup>	68.1 <sup>e</sup>	—	0.0	34,957
	1953	—	0.0	41,975	44.3	9,213	9.7	43,549	46.0	—	0.0	94,737
John Simon Guggenheim Memorial Foundation	1928	—	0.0	3,100	84.3	274	7.4	36	1.0	267	7.3	3,677
	1940	—	0.0	1,394	18.1	1,594	20.6	3,717	48.1	1,017	13.2	7,722
	1953	—	0.0	24,387	67.2	881	2.4	10,850	29.9	196	0.5	36,314
John and Mary R. Markle Foundation	1940	—	0.0	9,705	60.9	1,353	8.5	4,874	30.6	—	0.0	15,932
	1953	—	0.0	8,656	34.4	2,122	8.5	13,650	54.3	704	2.8	25,132
New York Foundation	1928	—	—	—	—	—	—	—	—	—	—	3,176
	1940	455	5.8	4,137	52.6	<sup>d</sup>	<sup>d</sup>	2,882 <sup>e</sup>	36.6 <sup>e</sup>	395	5.0	7,869
	1953	7	0.1	4,114	30.6	<sup>d</sup>	<sup>d</sup>	9,327 <sup>e</sup>	69.3 <sup>e</sup>	—	0.0	13,448
Rockefeller Foundation	1928	—	0.0	29,764	13.4	6,691	3.0	158,669	71.4	27,150	12.2	222,274
	1940	—	0.0	35,785	25.3	11,130	7.8	94,802	66.9	—	0.0	141,717
	1953	—	0.0	74,986	21.7	434	0.1	269,733	78.2	—	0.0	345,153
Russell Sage Foundation	1928	1,095	7.5	9,423	64.2	2,706	18.4	206	1.4	1,254 <sup>b</sup>	8.5	14,684
	1940	370	2.7	5,751	42.1	2,886	21.2	838	6.1	3,803 <sup>b</sup>	27.9	13,648
	1953	220	1.4	6,346	39.8	3,125	19.6	6,153	38.6	104	.6	15,948

SOURCE: Data supplied by the foundations concerned.

<sup>a</sup> Omits reversionary interests in trust funds of certain life tenants.

<sup>b</sup> Largely real estate, including the Foundation's own building.

<sup>c</sup> Book value in this year.

<sup>d</sup> Not itemized; included with common stock.

<sup>e</sup> Both preferred and common stocks.

reported assets of about \$20 million, and "bonds, notes, and mortgages payable" of \$10.9 million, making its inclusion a borderline case.

*Income* for purposes of Table 14 is defined as income from investments. Profit or loss from security transactions, or income in the form of new gifts, is not included.

### *Investment Policy*

Investment policy is subject to constant change. Reasons for these changes are later discussed, but it may be instructive to examine here the record of a small group of foundations for selected years—1928, the height of the prosperity period of the golden twenties; 1940, at the end of the depression and just before our entry into World War II; and 1953.

Mortgages never represented a large proportion of the investments of these foundations, and the trend appears to have been downward. In 1928 bonds were highly regarded as safe investments offering regular and relatively high income, and made up the largest portion of the portfolios of most of these foundations. A notable exception is The Rockefeller Foundation, which has steadily held common stocks, with much of its investment in oil. A pronounced swing toward common stocks had taken place among most of the other foundations by 1953. The only foundation with a substantial proportion of assets not in these categories was Russell Sage Foundation, which in 1940 owned a large double building partly self-occupied and partly rented to other social agencies and also found itself possessor of some other real estate as a result of depression-defaulted mortgages.

### *The Finance Committee*

To take active charge of investments and related problems most foundations appoint a finance committee of from three to five members, including usually the treasurer, any bankers or investment experts who may be on the board, and the president as a member *ex officio*. Since this committee meets frequently and, in an upset or lively market, may need to act speedily, it is advisable to have a majority of its members located in the same

city as the foundation's headquarters. Members of this committee empowered to sign checks or handle securities should be bonded, as should be any members of the paid staff with similar responsibilities.

Since a finance committee usually includes persons with banking or other financial connections, some of the foundation's accounts or financial transactions may involve firms with which these persons are associated. This is not objectionable provided all transactions are at arm's length and are performed at prevailing rates. Exempt status would be jeopardized if it could be shown that any part of the net earnings "inures to the benefit of any private shareholder or individual."<sup>1</sup> Certain "prohibited transactions," usually involving the donor or members of his family, are discussed later in this chapter.

### *Investment Services*

In addition to a finance committee of the trustees which sets policy, many foundations hire outside financial help, ranging from simple custodial services to investment counsel and complete financial management. Fees for custody services are quoted by one bank at 5 cents per share per annum on the first 10,000 shares of stock, and 2.5 cents per share for all over 10,000; for bonds, \$1.00 per \$1,000 par value per annum on the first \$500,000, 75 cents per \$1,000 on the second half million, and 50 cents per \$1,000 over \$1 million. There is a minimum fee of \$50 but not less than \$4.00 per issue per annum, and a charge for additional receipts and deliveries during the year; an annual statement of securities is furnished.

Investment counsel is offered by banks, investment services, and some brokerage houses. Fees are usually by agreement, and the range is wide, depending upon size of the corpus involved, its complications, and the reputation of the service. In a few cases brokerage firms offer such advice free provided they handle the brokerage account. Whether this is an eventual economy or an invitation to frequent changes in portfolio and investment in issues promoted by that house will depend on the firm involved.

<sup>1</sup> Internal Revenue Code, sec. 501(c)(3).



One New York bank<sup>1</sup> charges for investment service, including custody of securities, a fee of 0.4 per cent on the first \$300,000 of principal, 0.3 per cent on the second \$300,000, and 0.2 per cent on all amounts over \$600,000. This results in an annual fee of 0.29 per cent on \$1 million capital; 0.209 per cent on \$10 million capital. It is not unusual for a foundation of substantial size to budget from \$5,000 to \$50,000 or more for financial advice and service.

One group of foundations experimented with cooperative investment. In 1927 the Carnegie Corporation of New York, Carnegie Endowment for International Peace, Carnegie Foundation for the Advancement of Teaching, Carnegie Institution of Washington, and Teachers Insurance and Annuity Association of America set up a cooperative investment service, later dignified as an "Office," for advice on investments (decisions remained with the respective finance committees) and jointly contributed to its costs. This Office continues, though in more recent years the Corporation and the Foundation have been served by J. P. Morgan and Co. as financial advisers.

### *Trustees' Fees*

Fees for the trustee, where full financial responsibility is assumed by the trust department of a bank or by one or more individuals, are too complicated for full discussion here. Many states establish no statutory fees, but set up a standard of reasonableness within which agreements may be made between the principal parties, with right of appeal to a court. Where fees are established by law, as in New York State, these fees are obligatory only in testamentary trusts or in *inter vivos* trusts where no agreement (for either higher or lower fees) has been concluded.

In New York State, where the statutory fees are somewhat lower than in many other states, the trustee's commission on a fund not a perpetuity is the sum of three elements: (a) an annual commission on income of 6 per cent on the first \$2,000, 3 per cent

<sup>1</sup> The Hanover Bank, from which most of the New York State data quoted in this section were obtained.

on the next \$10,000, and 2 per cent on the balance; (b) an annual commission on principal of 0.1 per cent on the first \$50,000, 0.045 per cent on the next \$350,000, and 0.03 per cent on the balance; (c) a receiving and paying commission on the principal of 6 per cent on the first \$2,000, 3 per cent on the next \$10,000, and 2 per cent on the balance, payable half on inception of the fund or at first accounting, and half on termination. As an example, let us assume a fund of \$1,000,000 yielding 4 per cent, or \$40,000 a year. In all years the trustee receives under provisions *a* and *b* \$1,367.50, or about 3.4 per cent of the income. In both the first and the final year the trustee receives in addition, under provision *c*, \$10,090. If there is more than one trustee, each co-trustee is entitled to a full commission, subject to certain top limitations.

For a perpetuity there are no commissions on principal, but the rates on income are higher, amounting to 7 per cent on the first \$2,000 and 5 per cent on the balance of income collected yearly. For the same \$1,000,000 fund treated as a perpetuity, the trustee would receive \$2,040 annually, which is slightly more than 5 per cent of income, or 0.2 per cent of principal.

Such statutory rates are often changed by agreement. In community trusts where participating banks may be custodians of a number of small funds, either held separately or in a composite fund, the minimum fee may be omitted, or the greatly higher rates applying to initial small amounts may be avoided through treating the whole as one larger fund. A one-third abatement is often granted where the donor or his agents take full responsibility for management of the fund.

On the other hand, the newer corporation foundations present an opposite problem from the standpoint of fees. Since they are not measured by a life or lives they are legally perpetuities, and therefore exempt from fees on principal. Characteristically, toward the end of the business year they receive large sums, most of which are disbursed early the following year. Such a foundation has very little investment income on which fees are collectible, but may involve many individual check disbursements. In some such cases agreement has been reached on a special fee of 0.25 to 0.5 per cent on receipt of corpus.

*Security vs. Higher Income*

A high degree of security in an investment is usually accompanied by a low rate of income, while if larger income is sought in order to support current program, the principal itself may be endangered. This inevitable dilemma faces every board of trustees in making the most of its endowment.

Tradition has favored conservative policies. Trustees are aware of the storm of criticism that would fall upon them if principal were severely impaired through unfortunate investment. The social losses of a program suffering from anemic income are less obvious. "A balance sheet which shows full maintenance of assets in dollars is often regarded as sound, even when its showing in terms of real value is appalling."<sup>1</sup> In this area the trustees' dual responsibilities in conserving funds and directing disbursements are in a conflict that must be compromised.

The conservative position does not lack supporting evidence. All the "perpetuities" of ancient times have sooner or later been wiped out. The Julius Rosenwald Fund, which in the 1930's had its investments chiefly in common stock of Sears, Roebuck and Company, found itself in severe straits in the depression, when Sears stock dropped from close to \$200 per share in 1928 to a low of less than \$10 in 1932, with complete suspension of dividends. If it had met all its pledges, made when the market was high, with cash and on time, the Fund would have been wiped out. But fortunately—

In careful financial arrangements to meet this crisis, sister foundations helped generously. The General Education Board gave a number of emergency grants to Negro schools and colleges, thus making possible postponement of payment on the Fund's current pledges without hardship to the institutions concerned. The Carnegie Corporation, long interested in library service, appropriated a total of two hundred thousand dollars in 1932 and 1933 to support the program of library extension in southern counties. By agreement with the beneficiaries, interest rather than capital was paid on large pledges, and payments for current expenses were spread over a longer period than originally planned. These measures enabled the Fund to meet all its pledges and to continue active work for another

<sup>1</sup> *Year Book No. 53, 1953-1954*. Carnegie Institution of Washington, 1954, p. 3.

sixteen years. Following this experience the Finance Committee regularly sold securities sufficient to cover all commitments for eighteen months in advance.<sup>1</sup>

Severe as were the results of the depression, foundations in this country have not experienced the devastating effects of a drastic inflation or a lost war. Edwin Walter Kemmerer<sup>2</sup> has cited a few examples from Europe after World War I. The Pasteur Institute found its endowment reduced to less than 40 per cent of its pre-war total. The Theresian Academy in Vienna, worth \$1,600,000 in 1914, found its assets valued at \$112 after stabilization. Dr. Stroof, of Germany, died in 1921 leaving 7,821,000 marks to the University of Frankfurt; on December 18, 1933, this endowment was worth less than .00001 mark in gold. The Rothschild-Goldschmidt Endowment of the University of Frankfurt, established in 1913 with a capital sum of one million marks, was listed in 1929 at 1.32 marks.

Perhaps in this age of the atomic and hydrogen bomb American foundations also may need to consider security in terms of possible catastrophe. Far short of that extreme, in recent years the realization has spread that the traditional bonds and similar securities which preserve dollar values have their own dangers. Vannevar Bush, president of the Carnegie Institution of Washington from 1939 to 1955, said some years ago:

It is incorrect to believe that one can invest in a bond which has almost no risk, governmental or otherwise, and enjoy an income therefrom. One can receive dollar income, true, but in the long run the purchasing value of the whole, principal and accumulated income, will remain unchanged if the trends in purchasing value of the dollar which have persisted for fifty or seventy-five years continue, as they probably will, even if they do not become accelerated.<sup>3</sup>

Moreover, interest rates on bonds and similar securities have suffered a long-term decline of serious proportions. Table 16 presents the investment experience of the Carnegie Corporation

<sup>1</sup> Embree and Waxman, *Investment in People*, pp. 206-207.

<sup>2</sup> "Endowments in Jeopardy," *Atlantic Monthly*, December, 1937, p. 729.

<sup>3</sup> "Human Enterprise," *Proceedings of a Convocation of the Cooper Union*, November 2, 1949.

of New York over a 41-year period. The experience here represented may be roughly typical. Table 15 has presented evidence that most of the sampled foundations concentrated on the safer bonds, mortgages, and preferred stocks into the 1940's, and doubtless suffered similar reductions in income yield. Then a pronounced swing toward common stocks—equities rather than dollars—occurred, with substantial improvement in income. Some shift in this direction has seemed wise; how wise, only the future can determine. When much of the portfolio is in common stocks not only is the principal in somewhat greater jeopardy, but income may be subject to great fluctuations.

TABLE 16. INCOME AND YIELD PER CENT ON INVESTMENTS OF THE CARNEGIE CORPORATION, AT TEN-YEAR INTERVALS

Year	Endowment and legacy	Reserve	Income	Yield per cent
1912-1913	\$125,000,000	\$ 2,670,000	\$6,018,000	4.7
1922-1923	125,000,000	8,659,000	6,934,000	5.2
1932-1933	135,337,000	22,708,000	7,105,000	4.5
1942-1943	135,337,000	30,373,000	4,470,000	2.7
1952-1953	135,337,000	35,522,000	7,359,000	4.3

SOURCE: Reports of Carnegie Corporation of New York.

The Grant Foundation, with more than half of its assets in stocks, has been establishing a contingent reserve toward meeting this problem:

It is the intention of the Foundation to accumulate a reserve by appropriations from income until the aggregate thereof totals approximately a normal year's income. This is for the purpose of permitting reasonable continuity of operations and grants during a period when income may be reduced.<sup>1</sup>

The trustees review this reserve "at least annually . . . in the light of reasonable operating requirements and current conditions."

### *Social Policy in Investments*

Foundation investments may need to be considered from aspects other than safety and income. For example, should a

<sup>1</sup> *The Grant Foundation, 1951 and 1952*. New York, p. 49.



foundation make investments for social betterment which themselves produce income, as perhaps a housing development, in distinction from investments in securities intended to produce income alone? The question was foreseen and a policy established for one foundation as early as 1907.

I realize that investments for social betterment, even if producing some income, may not produce a percentage as large as that produced by bonds or like securities, and that the income of the Foundation might be therefore diminished by such investments. On the other hand, if I fail to give the Foundation powers in this respect it may be unable to initiate or establish important agencies or institutions. I decide to authorize the trustees of the Foundation to invest the principal of the fund, to the extent of not more at any one time than one-quarter<sup>1</sup> of its entire amount, directly in activities, agencies, or institutions established and maintained for the improvement of social and living conditions, provided that such investments shall, in the opinion of the trustees, be likely to produce an annual income of not less than three per cent.<sup>2</sup>

Many foundations have followed a somewhat similar policy. The many student loan funds, where interest is charged and a substantial effort is made to secure the return of the principal, may be regarded as a very common example of combining philanthropy and investment.

The Rockefeller Foundation, however, "has consistently adhered to the policy of declining to make gifts or loans to individuals, to invest in securities which have a philanthropic rather than a business basis, to assist in securing patents or aiding altruistic movements which involve private profit. . . ."<sup>3</sup>

Certain other types of investment are unwise, not for financial reasons, but because of effects on the foundation program or reputation. Obviously, no investment will be made in a business or enterprise generally regarded as antisocial. Also, any operating foundation having investments in, or whose executives have investments in or derive profits from, a business which is a subject

<sup>1</sup> Later increased to one-half.

<sup>2</sup> Letter of Gift to the Trustees of Russell Sage Foundation, from Margaret Olivia Sage, April 19, 1907.

<sup>3</sup> Vincent, George E., *A Review for 1922*. The Rockefeller Foundation, New York, 1922, p. 51.

of its surveys is in serious danger of having the objectivity of its findings challenged.

### *Voting Rights*

The sharp swing to common stocks for investments raises a fresh problem. As foundations increase common-stock holdings, which involve voting rights, they may acquire a substantial voice in the business, personnel, and social policies of those companies; what are their responsibilities?

Some foundations evade the severer aspects of this question by avoiding substantial holdings in any one company—though the primary purpose of such a policy may be safety through diversification. In 1932 the Carnegie Foundation for the Advancement of Teaching decided on a policy that “no security should be held in an amount of over half a million dollars without special authorization,”<sup>1</sup> but without disturbing present holdings. The Carnegie Corporation of New York reported to the Select (Cox) Committee to Investigate Foundations:

We have two self-denying ordinances which are not required by law. They just seem to us to be consistent with what I think is known as the doctrine of the prudent man. We will not put more than 5 per cent of our total investment in common stocks into any one business corporation or stock. Conversely, we will not hold in our portfolio more than 1 per cent of the stock of any single business corporation.<sup>2</sup>

In Ontario Province, Canada, the 1950 Charitable Gifts Act limits to 10 per cent a charitable trust's holdings in any business.<sup>3</sup>

In the absence of such legislation in the United States, foundations in recent years have become owners of substantial blocks of stock, and sometimes effective control, in many businesses. No broad survey has yet disclosed how this new responsibility is being discharged. Many foundations appear to “vote with the management” under ordinary circumstances. Others, particu-

<sup>1</sup> Savage, Howard J., *Fruit of an Impulse: Forty-Five Years of the Carnegie Foundation, 1905-1950*. Harcourt, Brace and Co., 1953, p. 314.

<sup>2</sup> *Hearings*, p. 353.

<sup>3</sup> For discussion of the political background of this legislation see Taylor, *Public Accountability of Foundations and Charitable Trusts*, Russell Sage Foundation, New York, 1953, pp. 109-111.

larly where the holdings are relatively small, do not return their proxies. But if the voting power of nonprofit institutions—schools and colleges, health, welfare, and religious agencies as well as foundations—continues to increase, such agencies may have to face realistically their responsibility to use their new power both toward efficient business management and for the general welfare, since their funds are public in character.

### *Prohibited Transactions*

Control through voting stock may or may not be involved in another class of transactions—those which divert substantial income or corpus from the foundation to the donor, his family, or related interests. Some of the pseudo-foundations set up primarily for tax purposes during the war period indulged in practices of this sort. To stop this abuse the Revenue Act of 1950 specified a number of “prohibited transactions,” and these have been carried without change into the 1954 revision of the Code. Tax exemption is forfeited if the organization—

(1) lends any part of its income or corpus, without the receipt of adequate security and a reasonable rate of interest, to;

(2) pays any compensation, in excess of a reasonable allowance for salaries or other compensation for personal services actually rendered, to;

(3) makes any part of its services available on a preferential basis to;

(4) makes any substantial purchase of securities or any other property, for more than adequate consideration in money or money's worth, from;

(5) sells any substantial part of its securities or other property, for less than an adequate consideration in money or money's worth, to; or

(6) engages in any other transaction which results in a substantial diversion of its income or corpus to;

the creator of such organization (if a trust); a person who has made a substantial contribution to such organization; a member of the family (as defined in section 267(c)(4)) of an individual who is the creator of such trust or who has made a substantial contribution to such organization; or a corporation controlled by such creator or person through the ownership, directly or indirectly, of 50 percent or more of the total combined voting power of all classes of stock

entitled to vote or 50 percent or more of the total value of shares of all classes of stock of the corporation.<sup>1</sup>

### *Taxation of Business Income*

Before passage of the Revenue Act of 1950 many private foundations, universities, churches, and other philanthropic organizations received invitations to take over the real-estate holdings, or all the assets, of business enterprises, and some did so. In a few cases the business enterprise itself was reorganized as a foundation, with income irrevocably assigned to a charitable use. It was assumed that in either case the income of the business operation would escape the federal income tax on corporations, since an early decision of the United States Supreme Court had made the question of tax exemption hinge upon ultimate use of funds, not their source.

Although this transfer of business profit (including the taxable portion of such profit) to charitable purposes was then within the law, it was capable of severe abuse. No provision required payments to the ultimate beneficiary at any given time. The favored tax-free enterprise could rapidly accumulate a large surplus for expansion or for its creator to "borrow" on convenient terms for other ventures. Complicated leasebacks on real property, inflated salaries, and other abuses were possible, and serious losses of tax revenue threatened. This also the 1950 Act endeavored to correct through involved provisions on Supplement U income.

In general, 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, and the regular corporate income tax and surtax (individual rates apply on trusts) is levied on certain previously exempt organizations which are in the nature of business corporations but devote their income to a philanthropic purpose. New regulations apply to long-term leases, taxing the income from such leases as "unrelated business income" under certain conditions.

This regulation does not apply, of course, to income from stocks, bonds, and investments generally. It does not even apply

<sup>1</sup> *Internal Revenue Code*, sec. 503(c).

to business operations of the foundation itself where they are substantially related to its exempt purposes. For example, a foundation may publish and put on sale the results of a research study; even on the remote chance that a profit is realized, the activity is clearly related to the foundation's exempt purposes. But if a foundation takes over an office building through mortgage default and begins to operate it, or for any other reason actually conducts an unrelated business, then it becomes liable for the usual corporation tax on profits exceeding \$1,000 derived from such enterprises; exemption on its remaining income is not affected.

### *Appropriations*

The voting of appropriations may be reserved for an annual meeting, may be spread over quarterly or monthly meetings, or sometimes is exercised at still more frequent intervals by an executive committee, usually with subsequent approval by the full board.

Timing is often troublesome, particularly for the perpetuities, which may spend only income. Where a substantial proportion of principal is invested in common stocks it is unsafe, as the Julius Rosenwald Fund discovered, to appropriate against the year's anticipated income, or even its paper principal. On the other hand, to appropriate only against accumulated income may result in missing some promising opportunities and piles up a current surplus that might be questioned under the rule against unreasonable accumulation. The problem may be further complicated by a need to make a fairly long-term commitment, guaranteeing to an agency or study group a certain income for perhaps three to five years. These problems are less severe for the optional perpetuities and liquidating funds which, being under no legal necessity to preserve principal, can appropriate against estimated income and make any necessary adjustments from time to time.

Foundations handle the long-term commitments they sometimes need to make in a variety of ways. Some of them notify the recipient in writing of the commitment but charge against the current year only the amount payable in that year. Such a prac-



tice presents dangers to the rigid perpetuity in case income drops severely or some catastrophe occurs.

To avoid such difficulties other foundations set aside the total appropriation when first voted, carrying the successive balances in future years as appropriated but unpaid. The Ford Foundation on one occasion segregated an appropriation even to the extent of paying interest to the beneficiary on the unpaid balances. This effectively removes the whole amount from invested capital, but sets up bookkeeping nightmares. The Carnegie Corporation of New York charges most grants to the income of the year in which voted, but has trustee authorization to operate on a five-year budget provided that charges against future income shall not exceed one half the total estimated as available for appropriation in those years.

The Alfred P. Sloan Foundation has one commitment of \$400,000 annually to the Sloan-Kettering Institute for Cancer Research for an indefinite period, cancelable on five years' notice. It sets up on its financial statement the sum of \$2 million for the Institute, representing the firm commitment for at least five years.

Sometimes an appropriation is for a specific project with completion date uncertain, payments to be made against approved expenditures on a monthly basis within an agreed total. In this case the maximum agreed total is usually appropriated, with reappropriation of the unexpended balances in future fiscal years, until the project is completed or abandoned. Any final balance is returned to the income account.

The periods when appropriations are voted should be considered carefully, both as to frequency and time of year. However convenient it may be for the trustees to vote appropriations at the close of their fiscal year, this may work severe hardships on recipients and the program. Not infrequently projects of the sort that foundations finance involve a year or more of work by a team including university personnel. The shortage here is of competent men rather than funds. Competent men do not usually pass up attractive teaching contracts on the chance that some months later a grant may be forthcoming for an interesting assignment. Unfortunate timing may lose the essential man or delay the project until another year.

Emphasis thus far has been on policies that ensure income adequate to cover the voted appropriations. In the experience of many foundations the more severe difficulty is spending substantially the whole year's income by the year's end. Finding and helping design worthwhile projects are tasks beset with disappointments and delay. Even where the total anticipated income is appropriated, the year may close with not more than half of this sum actually disbursed. Projects almost always take longer to organize than their sponsors believed possible. Individuals essential to a project become ill or die, and sometimes agencies themselves collapse and whole projects must be abandoned. This problem of unexpended appropriations is more severe for the operating foundation than the one solely devoted to grant-making, but it affects both.

Experience of the Twentieth Century Fund over the 12-year period 1943-1954 is illustrative. In all years voted appropriations greatly exceeded income, usually by at least 50 per cent and in several years by 100 per cent or more. However, actual expenditures fell far below the appropriated amounts in every year, and for the whole period approximately equaled the income. It should be added that in the case of this Fund the accounting practice is to include in a given year the total amount of any new appropriation even if it is expected to extend over three or four years, and to reappropriate unexpended balances of previous project appropriations; the appropriation figure corrected for the amounts not expected to be disbursed within the year would be much closer to anticipated income. A similar analysis extended over a period of years would be helpful to other foundations in arriving at realistic budgets.

### *Financial Reporting*

Chapter 12 deals at length with reporting and publicity, but some mention should be made at this point of financial reporting. All foundations are required to make certain financial reports to the federal Internal Revenue Service, and in a few states financial reports of varying degrees of completeness are required from non-profit corporations or charitable trusts, or both.

Foundations exempt under Section 501(c)(3) of the Internal Revenue Code are required to file annually a financial report on Form 990-A.<sup>1</sup> This is a four-page form, of which pages 1 and 2 are forwarded to Washington while 3 and 4, duplicating most of this information, are retained in the office of the district director of internal revenue, where they are open to public inspection. Both portions disclose for the given year the gross income, expenses attributable to gross income, disbursements from income or principal for the exempt purposes, any accumulation of income, and include a balance sheet.<sup>2</sup> The nonpublic portion of the return also records additions to corpus and requires certain information on organization, activities, and financial transactions with the donor, his relatives, or a controlled corporation.

Trusts claiming charitable deduction under Section 642(c) are required to file Form 1041-A, which is in most respects similar to Form 990-A.

State legislation requiring financial reporting from either charitable trusts or foundations is the exception rather than the rule, but occurs in several states and further bills are pending.

In addition to required reporting to governmental bodies, most large foundations issue annual reports covering both activities and finances, making these widely available to the interested general public. The present extent of such reporting is described in Chapter 12. A good financial report will include a balance sheet with detailed statements of income, disbursements, and the principal account. A full listing of investments should be included at least periodically. All financial statements should be attested by certified public accountants.

Finally, the treasurer, comptroller, bursar, or other official having financial responsibility will need to prepare for the trustees and officers of the foundation detailed reports on current operations, including forecasts of income and expenditure for the periods ahead. Such reports should be furnished to the trustees in advance of every regular meeting, and in many foundations they are a monthly routine.

<sup>1</sup> Foundations with unrelated business income must also file Form 990-T.

<sup>2</sup> Reproduced in Appendix F, pp. 436-439.

## The Professional Staff

IT HAS BEEN pointed out that a foundation's powers reside wholly in its board of trustees, who usually are unpaid and can devote only a fraction of their time to its affairs. Larger foundations, and some of the smaller ones, must therefore employ a paid staff, whose duties range from the merely clerical to the highly professional. How should members of such a staff be selected? What tasks do they perform? Is there danger, as the Special (Reece) Committee to Investigate Tax-Exempt Foundations has alleged, that the trustees will function as absentee landlords, delegating their duties and responsibilities to the paid employees?

### *Needs of the Small Foundation*

In these days when lists of foundations are printed and their annual reports are open to public scrutiny at the offices of the district directors of internal revenue, nearly every foundation, even if its funds are small and wholly committed, is bombarded by a steady barrage of appeals for funds and grants in aid. A few hardy foundations make no reply; but they are likely to find the more persistent applicants following up with telephone and personal calls on the president and other trustees. It is better to reject unsuitable appeals with an explanatory letter, both as a matter of courtesy and in the hope of avoiding further assaults from the same source.

A part-time secretary is a minimum requirement for nearly all foundations. This secretary handles routine correspondence in accordance with voted policies, submits to the executive committee or the full board any proposals that could possibly be considered, and may keep simple books. In some family foundations the donor's personal secretary performs these functions without cost to the foundation, but a reasonable charge for such services is a proper expense item.

Where funds are somewhat larger and not wholly committed, the services of such a secretary broaden. He or she may screen out the appeals clearly beyond the scope of the organization, perhaps advising the applicant of other more hopeful sources of funds; may help shape up applications which do fall within the interests of the foundation; and in some cases may suggest or help develop projects, and handle details of payments and follow-up.

Some small foundations have found professional assistance possible. They have employed on a part-time basis a person acquainted with the welfare needs of their community, or active in the particular professional field of their interest. Officers of community trusts, councils of social agencies, or of individual voluntary agencies, and retired foundation officials or professional men, are among those so employed. The problem is to obtain the requisite grade of professional help at a cost commensurate with a limited budget.

### *Special Needs of Community Trusts*

Community trusts are from some points of view aggregates of small foundations. This offers administrative advantages over individual small funds, but also presents a special personnel problem. If a community trust is both to serve its community efficiently with its disbursements and to grow by attracting additional funds, its director not only advises his distribution committee on community needs and carries out their instructions, but he should be well and favorably known in the community, able through personal contacts, speeches, and community activities to attract further funds to his organization. Says Stanton



Belfour, director and secretary of a community trust, the Pittsburgh Foundation:

The community trust executive is constantly harassed, in the early years of operation, by concern for adequate subsidy of his administrative budget, by sensitiveness to public good will, by an unceasing quest for new donors, by the need to win new friends to give their hard-earned savings to an untried organization. Like the Community Chest people, he must keep administrative expenses low. His is not a walnut-panel office with oriental rugs.

In short, the community trust executive is a *rara avis*, trained to promote and disseminate information, personable to win friends from all walks of life, patient to await the slow accumulation of endowment, and careful in judgment to recommend adequate and intelligent distribution.<sup>1</sup>

Mr. Belfour sets \$12,000 as a reasonable budget for an office and full-time director, and estimates aggregate trust funds in excess of \$5 million as necessary to provide this sum from administrative fees. Only a few of the hundred present community trusts have total assets of this amount. Many of them are functioning without special staff, one of the trust officers of a member bank serving as executive. Such unsatisfactory arrangements in many areas may be impeding the growth of the community trust movement.

### *The Corporation Foundation*

Customarily the corporation foundation is governed by a board of trustees consisting wholly or largely of officers and directors of the parent company. Their concern, because of the legal and business framework of corporation giving, is not with the whole of community welfare but primarily with that portion of it which affects interests of the company, its employees, or its customers.

The small corporation foundation, dealing only in grants, has often no paid staff. The trustees decide on the sums to be distributed, and probably the company contributes the needed secretarial help. But for effective distribution of larger sums at least one paid staff member is desirable, to conduct necessary

<sup>1</sup> Belfour, Stanton, "The Community Trust Executive." Paper prepared for the [then] National Committee on Charitable Endowments, Foundations and Trusts. Mimeographed, 1949, p. 4.

investigations into the merits of appeals, handle correspondence, appraise accomplishment, and seek out opportunities for that particular corporation to use its business know-how in making contributions that may prove uniquely valuable to the community, and have unusual public relations value for the corporation. For this work a corporation employee is often chosen, but the criterion should be aptitude rather than the desire to make a place for a superannuated employee. Where special projects are intended, as for example aid to education, an outside expert may be a desirable choice.

### *Personnel Needs of Larger Foundations*

Fewer than a dozen foundations have paid staffs of substantial size, and some of these are operating organizations, with special personnel requirements. Many funds endowed with multiple millions function from a small office with one executive, who may not even be full-time, and a secretary. The visitor to foundation offices has in store few surprises so great as the smallness of the staffs which administer most large philanthropic funds.

Such economy in personnel is unwise where substantial grants are involved. Giving away money effectively is a complicated business. The efficiency of a foundation is measured by the benefits resulting from its grants, not by the number of dollars given or a low mathematical ratio between administration costs and disbursements.

When the Select (Cox) Committee to Investigate Foundations asked for a listing of the difficulties foundations face, the Carnegie Corporation of New York, which does have a substantial staff, nevertheless called limitation of staff time one of its principal difficulties in achieving maximum results:

A major difficulty is the limitation of time. Although this is a difficulty common to most business and professional men . . . it seems particularly acute for the officers of foundations whose activities range over broad areas. To stay abreast of current thought, they must read widely in both professional and lay journals, and keep up with the never-ending flow of books relating in any way to their programs. They must visit colleges and universities throughout the

country; they must attend professional meetings; they must talk with the people who have proposals to present and to those whose advice they seek. Like other good citizens, they must respond to calls for public service, work as board and committee members in other *pro bono* organizations and frequently as consultants to Government agencies. Above all, there should be time for reflective thinking and study. Larger staffs are only a partial answer to this basic difficulty, because it is the depth and breadth of experience of the individual foundation officer that counts. For him or her the clock and the calendar represent the limitations of his maximum effectiveness.<sup>1</sup>

This quotation suggests some of the important and time-consuming functions which a professional staff can perform in a large, general foundation. Of course vast sums can be spent without such backgrounds of knowledge of comparative needs, acquaintance with available researchers and operating agencies, and skilled aid in designing and comparing projects for final decision of the trustee board. But it is noteworthy that among some 70 foundations with assets of \$10 million or more the few which are remembered for significant programs—and they are not necessarily the largest—are almost without exception the few which are served by reasonably adequate professional staffs.

In such a staff the key figure is the director—president, general director, executive director, executive secretary, are other titles. He is customarily selected by the trustees, in a few cases from their own body, and given primary responsibility for preliminary screening of grant requests, routine refusal of those clearly beyond program, preparation and presentation of those worthy of consideration, executive handling of grants made, and such follow-up appraisal as is desired. He may or may not be a voting member of the board of trustees, but his recommendations have usually great weight. He hires additional needed staff, sometimes after review by the full board, or at least with their approval. A fascinating picture of such a president in action is contained in *Appreciations of Frederick Paul Keppel*.<sup>2</sup>

<sup>1</sup> Carnegie Corporation of New York, *Answers to Questionnaire*, pp. 61–62.

<sup>2</sup> By Some of His Friends. Columbia University Press, New York, 1951. Not for sale but available on request from the Carnegie Corporation of New York. Particularly enlightening with respect to activities at the Carnegie Corporation are the chapters "President of the Carnegie Corporation" by Henry James and "Inside FPK" by John M. Russell.

Additional professional staff may include specialists in fields in which the foundation desires to function. An alternative policy is to pay fees to specialists for advice when needed rather than adding them to permanent staff. Mr. Keppel usually followed the latter policy, declaring that he would rather "buy his milk than keep a cow." The relative virtues of these policies depend upon the scope and purposes of the foundation and in no small degree upon the particular person available for the job.

Larger foundations have also need for a salaried treasurer or controller. This man or woman, under direction of the finance committee of the board, may have substantial duties in connection with the investment portfolio. He keeps the books, prepares financial reports, handles the financial details of grants, prepares checks for signature. In a large staff he handles payroll, taxation problems, health and hospital insurance, retirement plans. In some cases he is also secretary to the board, preparing the official minutes.

Writing or editorial service is a frequent need. Such a person may help to prepare annual reports, speeches, statements for the press. A staff person may be required to build and maintain a library and perform clipping services. In some cases the foundation itself may issue reports of research, which require writing, editing, or promotion. A few foundations maintain full publication departments, a subject later discussed. Recent investigations of foundations have made evident the need for much wider public understanding of foundations and their work; several have instituted or augmented programs of public relations. Sometimes the desired emphasis is not upon discovery or even application of new knowledge, but dissemination of known facts; this requires staff skilled in publicity work.

Legal services are not commonly staff functions. A law firm is usually retained, frequently at a stated annual fee supplemented for special items.

Clerical services are required in foundations of every size. The number of secretaries, stenographers, machine operators, and file clerks will vary, but except in the operating foundations is seldom large.



*Recruitment of Personnel*

Because the total number of foundation employees is small and the jobs without agreed definitions, recruitment presents problems. Training courses exist for teachers, lawyers, tennis players, insurance salesmen, undertakers, jet pilots; but none for foundation executives. There is, however, no dearth of applicants. To every large foundation stream men and women, young and old, who announce a call to foundation work. From the outside looking in, helping to give away other people's money seems peculiarly attractive: quiet, prestigious, reasonably secure, and according to one highly publicized salary, well paid.

The fact is that staff positions of any sort are few, and top assignments peculiarly difficult. Being the efficient eyes of a foundation requires knowledge and objective judgment coupled with unlimited curiosity, human sympathy, creative imagination. It calls for extraordinary ability to get along with people—the trustees who are the final authority, disgruntled grant applicants, lunatics and self-appointed world saviors, grantees who turn out *prima donnas*, the pitiful who seek help. Said Henry James, formerly business manager of the Rockefeller Institute for Medical Research and a trustee of the Carnegie Corporation:

Daily, if not hourly, [a foundation executive] is reminded how inadequately, how badly, how wrongly things are going in this quarter and in that, and when he is not being told, he must get up and look about to discover where something ought to be done. If he looks too diligently and allows himself to grow weary and stale, he will be in danger of finding that the world's woes have become an oppressive obsession. Altruists who are melancholy, reformers who are mournful, "low-spirited humanitarians," saints who are spoilsports instead of being "happy warriors"—we have all known a few of them. They prove that a man who devotes himself to [this] sort of work had better be endowed with no little buoyancy of spirit.<sup>1</sup>

There are compensations. Hopeful applicants for grants keep luncheons from being lonely, and even modest stories are certain of uproarious reception. Also there are solid satisfactions in a job

<sup>1</sup> *Appreciations of Frederick Paul Keppel*, p. 48.



well done, persons and causes soundly helped, and slowly over the years, in spite of delays and lost hopes, a mounting record of achievement which one has helped to build.

Few present foundation executives consciously sought their jobs, or were trained for them. Recruitment was a combination of acquaintanceship, fitness, and accident, in varying proportions. Frederick P. Keppel stated that colleges and universities were the natural sources for foundation personnel,<sup>1</sup> and most later commentators have uncritically accepted his dictum. But the background experience of most present top executives is far more varied than this statement suggests.

Biographical data were available for 40 heads of larger foundations. Nine—less than a quarter—were professors or professional educators. Business and finance accounted for eleven, the law alone for seven, four each came from social work and from publishing, three were doctors or dentists, two were engineers. But these broad categories conceal the full variety of experience. Business includes department stores, tobacco, soft drinks, flour milling. Education may mean college president, teaching in the Wharton School, or an engineering professorship with corporation employment on the side. The executive director of one large new foundation was himself an engineer, attorney, economist, fund-raiser, and author, holding simultaneous memberships in the National Society of Professional Engineers, American Bar Association, American Marketing Association, American Statistical Association, Latin-American Economic Institute, and writing fiction and articles under several pseudonyms.

If there is any common denominator for top professional staff, it is association with the donor. Exceptions exist, but at least among the newer foundations the top executive post is usually held by someone who became favorably known to the donor, perhaps as a business associate, or his lawyer, or a professional man such as a doctor who may have served the donor's foundation usefully. These men have grown into their jobs, learning from experience and sometimes from the advice of executives of

<sup>1</sup> *The Foundation: Its Place in American Life*. Macmillan Co., New York, 1930, pp. 10-11.

older foundations. But such interchange is not frequent, no formal education is available, and the recruitment and training of foundation personnel is a field still unplowed.

A few years ago a major foundation was about to hire an assistant. A social scientist was invited to state desirable qualifications for such a person, and did so. Later he received a letter reporting the appointment, and adding: "The candidate, however, has none of the qualifications you mentioned." The young man learned on the job, and became the efficient head of one of our larger foundations.

Below the directorship, staff above clerical level is apt to occur only in the larger foundations. Such persons are usually selected by the director for particular capacities, often professional, and such staffs (except in operating foundations discussed in the next chapter) are not large. The Carnegie Corporation of New York, ranking third in assets, reported to the Reece Committee in 1954, "The entire staff, professional and clerical, now numbers thirty-three and has never exceeded this figure."

### *Loyalty Investigations*

Among foundations as in other segments of American life, Communism, or at least the fear of it, has become a personnel problem. Certain members of Congress together with irresponsible elements in the press made sweeping charges of Communist infiltration of foundations, pointing to Alger Hiss as president of the Carnegie Endowment for International Peace. The Select (Cox) Committee to Investigate Foundations undertook as one of its principal objectives an investigation of this situation. The Committee discovered with respect to Mr. Hiss that he had been suggested for his post by Mr. John Foster Dulles, his previous career had been investigated prior to employment by three trustees who included inquiries in the State Department, and while in office he had given "not the slightest" indication of bias in favor of the Soviet government or its satellites, but had worked diligently for the Marshall Plan, contrary to Soviet policy.<sup>1</sup> On the whole subject

<sup>1</sup> *Hearings*, Testimony of John W. Davis, pp. 569-572.

of Communist infiltration of foundations the Committee finally reported:

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.<sup>1</sup>

The Committee urged foundations to take greater future care in screening personnel. It is a timely warning in this period of some positive danger and more public hysteria.

### *Conditions of Employment*

Being themselves welfare agencies, foundations can ill afford to lag behind commercial firms in employment practices. The policies of smaller foundations, where arrangements are likely to be personal between the donor and his one or two employees, are not known. Most of the larger foundations follow liberal practices, with relative security of employment, sick leave, group health and hospital plans to which the foundation may contribute part or all of the cost, and similar benefits. Vacations are generous, amounting to a full month in many instances for all employees with a year or more of service; but the sabbatical year of the education field has not been adopted by foundations so far as known. With a few exceptions, salaries are modest in comparison with responsibilities; this is frequently the case throughout the welfare field, where satisfaction with the work done is presumed to be part of the reward.

Since retirement pensions were the main concern of one of the early foundations, the Carnegie Foundation for the Advancement of Teaching, it was to be expected that nearly all the larger foundations would have retirement plans. The usual age for retirement is 65, with sometimes 60 set for women, and service beyond 65 permissible on trustee approval. At least 37 larger

<sup>1</sup> *Final Report of the Select (Cox) Committee to Investigate Foundations and Other Organizations*. U.S. House, 82d Congress, 2d Session. House Report No. 2514, Government Printing Office, Washington, 1953, p. 7.

foundations are participants in the Teachers Insurance and Annuity Association, set up by the Carnegie Foundation and Corporation to handle pensions for professors, but open also to other "educational" institutions. In this plan both the foundation and the employee contribute toward the retirement allowance, the rates varying from 10 per cent of employee's salary (half contributed by each) to 15 per cent, with the foundation contribution  $7\frac{1}{2}$  or 10 per cent; but the total accumulation belongs to the employee, whether or not he remains in foundation employment. The Commonwealth Fund has an exceedingly liberal noncontributory retirement plan, but with no rights accruing to the employee until retirement.

When most of these plans were instituted foundation staff were not eligible for social security; now that that situation has changed many foundations are continuing their private plans (which were proving inadequate because of lower investment income and inflationary price levels) and adding the social security provision. A general goal is retirement at about 50 per cent of average salary for the last five years of employment; if the employee has a record of long employment and the regular payments have not achieved this goal, trustees may vote annual grants, or a lump payment at time of retirement, to bring the benefit to this amount.

### *Staff Duties*

Duties of staff members differ substantially in various foundations, particularly as between operating and grant-making foundations. The separate chapters devoted to the problems of these several types of organizations detail many of these duties, and preceding sections of this chapter dealing with personnel needs of various types of foundations have by inference described many of these duties. The testimony of two of the witnesses before the Select (Cox) Committee are also enlightening on their broader aspects. Said Charles Dollard, then president of the Carnegie Corporation of New York:

I can tell you what we look for in officers, which is perhaps the important thing. We want men who have had a very good education,

who have had some experience in higher education, that is who have actually been in colleges or universities, who have a great deal of common sense, and who have absolute integrity and imagination. We are not too much interested in what fields they have been trained in, although we would not want to get a staff made up wholly of chemists or psychologists or sociologists.

We want some variety in the training of the staff, but the important thing is that they are responsible, they are wholly honest, that they are imaginative, that they have common sense and that they are willing to work very hard.<sup>1</sup>

The program of The Rockefeller Foundation is international in scope and is carried on primarily through grants to universities, colleges, and other qualified research agencies. Within policies established by the trustees, the responsibility for development of the Foundation's program rests in the hands of its president and a group of principal officers. Each of the areas in which the Foundation is currently active (agriculture, the humanities, medical education and public health, biological and medical research, and the social sciences) is headed by a director assisted by a small staff of specialists. In certain fields of public health, medicine, and agriculture, the Foundation also engages directly in research and operations, and for this work it maintains a substantial field staff as well as laboratories and experiment stations in several countries.

Chester I. Barnard, formerly president of the New Jersey Bell Telephone Company and then of The Rockefeller Foundation, compared the staff of the Foundation with those of business corporations:

. . . In the very vital business of knowing the language of the people you are working with and the effectiveness of a small group of people working in a foreign language with foreign officials and foreign customs, [the foundation] has been outstanding, and I do not think it has been bettered by any organization anywhere. It is almost dramatic, it has been so good.

Mr. Weaver and his staff or Mr. Willits and his staff have a more intimate knowledge of the people who are important in the field in which they are concerned, world-wide, than you would generally

<sup>1</sup>*Hearings*, pp. 326-327.



expect to find in business organizations. That is quite an outstanding thing because the organization is very small, with only 250 people, counting stenographers, clerks, and the rest of it.<sup>1</sup>

Except in the special case of the operating foundation, the primary duty of professional staff is to have such thorough acquaintance with the fields in which the foundation proposes to make its grants that, on any project submitted, it can give the trustees expert advice on the worth of the project, the competence of the proposed personnel, and the standing of the sponsoring organization. Further, this staff should know the field so well that it can perform the creative job of foreseeing needs, stimulating persons and organizations to submit proposals meeting these needs, and helping design those projects.

### *Temporary Staff*

In addition to a small permanent staff of general competence, many foundations take on *ad hoc* or temporary staff. This is particularly true of the operating foundations, which may engage in single projects in unusual fields and for this purpose hire special staffs, to be disbanded when the projects are completed. Grant-making foundations may take on temporary advisers or small units of specialists for the duration of a series of grants.

Temporary staff has both advantages and liabilities. On the asset side is flexibility. For each specialized project the ablest persons in that field can be sought, without the need to train a present staff member into a new competence. If the person fails to meet expectations, employment can be terminated with little loss. If the project is abandoned, or when it is completed, all responsibility can be cleanly ended.

On the other side, new people with the most resounding reputations often prove disappointments. Besides, it is usually not possible to obtain for brief employment a really outstanding expert, unless at a very high salary rate, and many months may be lost in simply acquainting a new person with the ways and desires of a foundation. Moreover, once a foundation has sunk

<sup>1</sup> *Hearings*, p. 563.

funds, or its own efforts, into any project, that project is never quite completed. Always there are loose ends which could be tied up only by the now-departed expert, or a final push that might have brought outstanding results.

### *Employment of Technical Experts*

In line with Mr. Keppel's preference for buying milk instead of keeping a cow, many foundations hire technical services as needed on a fee basis. The most extensive recent operation of this sort was the Ford Foundation's study committee on future program, to direct which the Foundation hired a San Francisco lawyer not known to any member of the Ford family but recommended by two of the trustees. This committee "in the course of a few months covered a quarter of a million miles by air travel, and put in about seven and a half man-years, not counting the time of the interviewees and conferees; they directly conferred with over a thousand men and women in the United States."<sup>1</sup> In this case the temporary employee, H. Rowan Gaither, Jr., later became an associate director of the Foundation and in 1953 its president.

Most large foundations consult outside experts with respect to requests for grants in specialized fields. When such consultation involves a formal report, and sometimes for less formal consultation, a fee is paid. Occasionally the services of an agency are commissioned. For example, the Twentieth Century Fund voted \$150,000 in social science research scholarships for faculty members of independent liberal arts colleges for 1951 and 1952, primarily as a means of providing employment for able younger men who were in danger of being dismissed because of draft-diminished classes and college deficits; Social Science Research Council was commissioned to make and administer the awards. The same Fund hired a publications consultant on one-tenth time, and the occasional services of experts in the fields of motion pictures and radio.

<sup>1</sup> For Mr. Gaither's description of the work of his committee, see *Hearings*, pp. 196-202; see also *Report of the Study for the Ford Foundation on Policy and Program*, Ford Foundation, Detroit, 1949.

*Memberships and Committee Service*

Staff members of foundations are widely sought as members of welfare and educational agencies, and usually such membership rapidly involves committee appointments or invitations to serve on the governing board. Such invitations to service may be a tribute to outstanding ability in the individual concerned, but a strong suspicion persists that some of these organizations may hope by this means to get more favorable consideration of their pleas for financial aid.

Foundations adopt varying policies with respect to such service, with many of them leaving the decision up to the individual. A substantial amount of public service of this character is usually encouraged, particularly in view of the desirability of promoting wide acquaintanceships in fields of the foundation's interest. One corporation foundation tries to have a major executive of the foundation or the corporation on the board of every agency, college, or other institution to which it makes substantial contributions. This is not so much a matter of voluntary service, however, as a means of keeping in close touch with the agency's program and being in a position to suggest activities of direct interest and value to the corporation; such a policy leans dangerously toward control of benefiting agencies.

The converse may also be true. If a director of a foundation is also a board member of an agency appealing for a grant, his aroused sympathies may make his presentation of that appeal less than objective. One foundation goes so far as to require that no officer or staff member accept membership on the board of any college, university, or other tax-exempt institution unless with special approval in advance and the strong belief that no grant applications are contemplated by that institution. If an application is made, he must resign.

Few foundations will need a formal regulation of such severity. If these dangers are recognized, it will usually be possible for the staff member himself to strike a reasonable balance between useful service and exploitation, and to avoid special pleading for organizations with which he may be associated.

*Costs of Professional Staff*

While foundations seldom offer salaries comparable with business corporations of similar size, extreme economy in this direction is unwise. However able its trustees, no large foundation can function effectively without an efficient staff. The difference between routine aid for traditional causes that might also have secured their funds elsewhere and a creative program that pushes forward the boundaries of human knowledge may be no more than one or two able staff executives who search out and mature vital projects for board consideration.

The proper proportion between actual disbursements for grants (or operating program) and administration is a delicate problem, varying with the size and purposes of the foundation and the judgment of the trustees. The general public has been extremely critical of "overhead" on the part of social agencies,<sup>1</sup> failing to recognize that true economy may consist in adequately paid skilled service. As one elderly lady put it, "We have different ideas of what is waste. Not going to a cheap dressmaker is a saving."

Although foundations need not collect funds from the general public, most of them do report to that public, and many of their trustees, themselves serving without pay, cut the costs of administration below the level of efficient operation. Figures are difficult to come by, because administration is not clearly defined and in some cases even an individual salary is chargeable to several categories.

For the 77 larger foundations listed in Table 14, data were obtained on total disbursements, disbursements for grants or operating program, and a balance called "administration and miscellaneous." The last figure includes some items occurring in the one year only, or not properly administrative charges at all. To average over these exceptions and avoid infinite footnoting, Table 17 presents these data grouped by asset class; but it should be noted that the amounts in the "administration and miscellaneous"

<sup>1</sup> See Andrews, F. Emerson, *Attitudes Toward Giving*. Russell Sage Foundation, New York, 1953, pp. 30-34.

column are higher than if a close definition of administration could have been followed. Only 72 foundations are included in the tabulation; the remaining 5 did not supply comparable data on this item.

TABLE 17. ADMINISTRATIVE AND MISCELLANEOUS EXPENDITURES OF 72 FOUNDATIONS IN 1953, GROUPED BY ASSET CLASS

Assets	Number of foundations	Total expenditures (thousands)	Administration and miscellaneous Amount (thousands)	Per cent of expenditures
Total	72	\$155,033	\$14,309	9.2
Over \$100 million	6	77,315	6,337	8.2
\$50 under \$100 million	6	14,834	1,310	8.8
\$25 under \$50 million	12	17,631	1,271	7.2
Under \$25 million	48	45,253	5,391	11.9

SOURCE: Russell Sage Foundation survey for National Science Foundation.

The "administrative and miscellaneous" expenditures item varies from 7.2 per cent to 11.9 per cent among the various asset groups. Unfortunately, wide variations in program, financial structure, and accounting practices make any close comparisons impossible. It is not even safe to assert that such charges are likely to be relatively higher when foundations spend in the hundred thousands instead of the millions annually; one of the foundations in the smallest category had administration and miscellaneous expenditures of \$645,000—but \$567,000 of this was for depreciation of property, not an "administrative" expenditure in any usual sense. For many foundations, administrative costs are probably lower than they should be for efficient operation.

As some indication of the nature of administrative expenditures a large foundation may meet, Table 18 breaks down such expenditures of the three largest foundations for 1953, using comparable headings where this was possible. But such reports are not truly comparable. For example, the costs of studying and initiating projects may be assigned to administration or project totals, depending upon accounting practice and whether these tasks were performed by permanent staff or outside experts in the given field. In Table 18 The Rockefeller Foundation lists field



office costs under administration; the Ford Foundation, which spent \$647,381 in 1953 for overseas offices, lists this item under project expenses.

TABLE 18. ADMINISTRATIVE EXPENDITURES FOR 1953 OF THE CARNEGIE CORPORATION OF NEW YORK, THE FORD FOUNDATION, AND THE ROCKEFELLER FOUNDATION  
*Dollar figures in thousands*

Item	Carnegie Corporation	Ford Foundation	Rockefeller Foundation
Total disbursements	\$6,682	\$46,860	\$14,651
Administration	473	2,294	1,943
Per cent of total	7.1	4.9	13.3
<i>Administration</i>			
Home office	—	—	1,737
Field offices	—	—	148
Treasurer's office	60	—	58
Employee compensation, benefits	290	1,138	—
Furniture, equipment, etc.	9	238	—
Rent	24	105	—
Travel	15	175	—
Legal and accounting	14	126	—
Postage, printing, etc.	32	511	—
Review of proposals, grants	8	—	—
Miscellaneous	20	—	—

SOURCE: Annual reports of these foundations, with items made comparable where possible.

Since no small foundation was included in our special survey and few issue annual reports, data for them are not available; but it is believed that their administrative expenditures are low, and in many cases below the level desirable for efficient operation.

Of course, the opposite imbalance is also a danger, and one that professional staff tends to promote and may fail to recognize. As Frederick P. Keppel, himself a part of professional staff, once acknowledged:

Lay responsibility . . . is needed to insure a sense of proportion in all things, to balance the vaulting ambition of the specialist, and, it may be, to mitigate his intolerance. It is needed to see that administration, while competent, is kept at a minimum, something no administrator can be relied upon to do for himself.<sup>1</sup>

<sup>1</sup> *Philanthropy and Learning, with Other Papers*. Columbia University Press, New York, 1936, p. 167.

*Staff Problems of Small Foundations*

In terms of numbers, it is not the 77 foundations of our special study but the thousands of new small foundations which represent the most striking recent development. Many of these small foundations are presently merely corporate channels for personal, palliative giving. Others perform services of great usefulness in their communities, and sometimes under wise guidance finance projects of national importance. These accomplishments are usually the fruit of the devoted attention and enthusiasm of the donor and his or her associates.

But soon these foundations, many of which are perpetuities, will lose these guiding hands. In most cases the corpus is too small to yield an income warranting professional staff, or to command the voluntary services of men of stature as trustees. Grave danger exists that in the near future the funds of many of these foundations will be routinely administered or wasted.

The dimensions of this threatening problem are suggested by an estimate made by Wilmer Shields Rich:

From the standpoint of size, only a handful of these 4,000 foundations fall in the large category . . . more than 3,400 do not even possess one million dollars or give away \$50,000 [a year]. All together these have less resources than those of the Ford Foundation alone. Slightly more than two-thirds of them have less than \$200,000 in assets or are receiving gifts of so small an amount that they are not in a position to give away even \$10,000 a year; and one-third of these [have] assets of less than \$20,000 or they are not even distributing \$1,000 a year.<sup>1</sup>

How large a foundation need be to function efficiently depends on many factors, including its location, the nature of its work, and the quality of its direction. In a small community even a tiny foundation might command good leadership and prove an effective instrument. Generally speaking, however, it is questionable whether a foundation should be set up as an independent perpetuity unless its disbursements will reach \$100,000 annually;

<sup>1</sup> Address before the National Committee on Foundations and Trusts for Community Welfare, Buffalo, May 14, 1954.

this requires a corpus of at least \$2.5 million at current rates of interest. Alternatively, an adequate program can for some time be maintained by a provision to spend both capital and income within a given period. But even for considerably larger sums other devices possessing most of the advantages of the separate foundation, but avoiding its complications and costs, may be more desirable.

### *Growth Possibilities*

Nearly all foundations are so closely associated with a single donor that it is forgotten that they may, and sometimes do, receive additional gifts from varied sources. For example, the endowment of the Carnegie Institution of Washington grew from \$10 million in 1902 to about \$50 million in 1953. Mr. Carnegie himself added to the original endowment; first \$2 million in 1908, and \$10 million in 1911. Capital gains have added substantial amounts. Mrs. E. H. Harriman in 1917-1918 gave the Institution securities, real estate, equipment, and research records valued at \$484,000. Between 1927 and 1944 the Carnegie Corporation of New York gave \$10 million as addition to endowment. Minor bequests (\$78,000 and \$11,000 respectively) were received from the estates of Richard T. Colburn and John E. Teeple, and other smaller donations. Also, numerous gifts have been received for specific projects; for example, \$50,000 from John D. Hooker toward the construction of the 100-inch telescope.

The Julius Rosenwald Fund received additional gifts from the estate of Theodore Max Troy, from the Rosenwald Family Association, and from individuals interested in various activities of the Fund. The John Simon Guggenheim Memorial Foundation received \$75,000 from Francis H. Brownell—his fee as an executor of the Simon Guggenheim estate. The Juilliard Musical Foundation received \$270,000 from the estate of William Nelson Cromwell. The Rockefeller Foundation records an extraordinary example:

Two victims of the Hitler persecutions, who met their deaths in concentration camps, left wills naming The Rockefeller Foundation

as a principal beneficiary. As far as can be discovered neither of these men had been in contact with the Foundation. They did not know each other. One, a Frankfurt physician, died probably of malnutrition at the Theresienstadt camp. The other, a Hungarian industrialist, was executed in the gas chambers at Auschwitz. He left the Foundation nearly \$100,000 in a New York bank and other lesser funds in institutions located in Geneva, London, Cairo, and Johannesburg. It would seem that in both cases the donors looked upon The Rockefeller Foundation as perhaps the one stable and enduring organization worthy of their final trust.<sup>1</sup>

Such examples could be further multiplied. Clearly, one method of putting smaller sums to work is to give them to a large foundation operating in the chosen field of interest. But this is seldom an accepted solution. Many donors desire to give in the form of a separate fund with name attached and for restricted purposes, and few foundations wish to receive funds so conditioned. One foundation operating in the field of economics hired an employee to seek additions to its own limited endowment; it soon desisted, for no contributions were obtained.

### *Consolidation Possibilities*

Physical consolidations of several smaller foundations have sometimes occurred. For example, the Southern Education Foundation was formed in 1937 as a consolidation of the John F. Slater Fund and the Negro Rural School Fund (Anna T. Jeanes Foundation) and the Slater Fund had earlier received residual funds of the Peabody Education Fund; the Virginia Randolph Fund was added in 1938. The Laura Spelman Rockefeller Memorial, set up in 1918 by Mr. Rockefeller, Sr., in memory of his wife, received in all about \$74 million from Mr. Rockefeller; in 1929 it was consolidated with The Rockefeller Foundation after certain substantial sums were disbursed as memorials to Mrs. Rockefeller, and the Spelman Fund of New York (since liquidated) was given \$10 million for the improvement of practices in the field of public administration.

<sup>1</sup> Fosdick, Raymond B., *The Story of The Rockefeller Foundation*. Harper and Bros., New York, 1952, p. 301.

Among corporation foundations an interesting example of consolidation exists in Hillside, New Jersey. About 90 small industrial companies operate in that community, none of them large enough to warrant the staff and other machinery of a separate foundation. Under the auspices of the Hillside Industrial Association the Hillside Industrial Foundation was incorporated in 1952 with this membership provision:

Any individual, firm, association, organization or corporation located in Hillside, engaged in manufacturing or whose principal business is servicing manufacturers, and which makes an annual contribution of not less than \$100 shall be eligible for membership in the foundation.

Membership had risen to 28 by June, 1955. Its trustees, limited to nine, are elected by majority vote of the members. Each member must contribute at least \$100 a year to the general fund; additional sums may be earmarked for particular organizations or causes, if the donor so desires, but the Foundation urges that they also be left in the general fund to be administered by the trustees. Through this device a single staff screens appeals and handles the contributions of a large number of industrial firms, and is able to coordinate and plan most of the local industrial giving toward community projects.

Still another pattern, short of physical consolidation but with resources pooled to employ professional staff, is being demonstrated in Kansas City. There four foundations, the Carrie J. Loose Fund, Jacob L. Loose Fund, Ella C. Loose Fund, and E. F. Swinney Fund, with combined assets approximating \$10 million, set up in 1949 the Kansas City Association of Trusts and Foundations as an independent agency "to assist educational and charitable trusts in the development of coordinated programs of grants-in-aid to worthy community undertakings."<sup>1</sup> The Association supports research into community needs, recommends specific and usually joint appropriations to the participating foundations, and encourages broad community planning. Any foundation in the Kansas City area may join upon agreeing to

<sup>1</sup> *Report for 1952 and 1953*. Kansas City Association of Trusts and Foundations, p. 7.



submit new proposals for advice and contribute to the Association's overhead. Trustees retain the right to accept or reject the Association's recommendations.

The City of Philadelphia solved the problem of numerous small trusts through the creation of a quasi-governmental body, probably unique among "foundations." As early as 1739 one William Carter left a small trust to the City of Philadelphia for "ye reliefe of ye poor people in the same forever." Numerous other trusts accumulated, mostly small, but also the Girard College Trust which grew tremendously when coal was mined beneath its Pennsylvania land holdings. Administration of these trusts under changing political control was inefficient and serious charges of graft were made. In 1869 the citizens secured a special Act of the legislature of the Commonwealth of Pennsylvania; it continued to vest trusteeship of these funds in the City of Philadelphia but put their administration under the Board of Directors of City Trusts, City of Philadelphia. This Board consists of the mayor and the president of City Council serving *ex officio* together with twelve citizens appointed by the judges of the Courts of Common Pleas of Philadelphia to serve for life or during good behavior. Trustees are not compensated, but the Board employs a professional staff to care for its many funds, now numbering about 80 and aggregating some \$100 million in assets if real estate of the Girard Trust is included. Full reports must be made annually to the appointing body (the Courts of Common Pleas), to the state legislature, and to the City Council.

Similar examples exist in educational and other funds donated to local governments in some sections of the country, but usually administered directly by the governing body.

Parallels overseas are the Common Good funds which anciently originated in the royal burghs of Scotland. The Nathan Report<sup>1</sup> discusses these funds extensively and makes certain recommendations for their development "to stimulate and help launch pioneer efforts, especially in under-endowed areas . . . [and attract] small bequests which might otherwise take the form of new trusts

<sup>1</sup> *Report of the Committee on the Law and Practice relating to Charitable Trusts*. Cmd. 8710. Her Majesty's Stationery Office, London, 1952, pp. 137, 150-156.

of an uneconomic size and with too narrow objects.” The Nathan Committee felt that they should be “spontaneous in origin and unofficial in character” with the full freedom of action of all local charitable bodies. It added a caution on general mergings which deserves iteration here:

One consideration is that charitable trusts provide an opportunity to many thousands of men and women not only for voluntary service but also for some administrative experience as trustees or officers leading on, may be, to other and more spectacular forms of “active democracy.” . . . These opportunities are a source of strength and enrichment to the community. We should therefore be opposed to the wholesale sweeping up of trusts into county or regional “pools” or “common good funds.”<sup>1</sup>

Community trusts<sup>1</sup> already offer in many cities in the United States nearly all the facilities recommended by the Nathan Committee for the handling of small funds in Great Britain. The possibility of many of the smaller family foundations making a local community trust their residual depository, either upon the death of the donor or at a stated period thereafter, was discussed at the 1954 annual meeting of The National Committee on Community Foundations in Buffalo. Of course many smaller funds which might have been set up as separate foundations are already in the community trust fold. The further suggestion is now made that living donors who desire to share in the active management of their foundations during their lifetimes may wish to make a community trust the residuary legatee.

Perhaps such trusts may also become the haven for estates of intestate persons without heirs, and dormant funds in their respective communities. Examples of the latter use already exist:

#### *Operation Salvage*

On three occasions, two of them in 1954, the New York State Supreme Court has directed dormant funds into the Community Trust for salvage. The first such instance related to the unused remainder of a sum raised through an appeal by the New York Times

<sup>1</sup> *Ibid.*, p. 136.

<sup>2</sup> See pp. 32-34.

and New York World in 1918, following the death of John Purroy Mitchel, to memorialize the late Mayor. Another inactive balance, which came to the Trust after the University Club of Mt. Vernon ceased to exist, brought the remnant of a fund long previously trusteeed for management by the now extinct club. In a third such case, the Trust received the unspent portion of a fund which was raised by the New York Post following an outbreak of violence in the Bronx in 1943 and which had served the immediate purposes for which it was collected. The Trust will be glad to explore the rehabilitation of other obsolescent or inoperative funds.<sup>1</sup>

<sup>1</sup> *Report for 1954*. New York Community Trust, New York, 1955, p. 19.

## The Operating Foundation

FROM ONE POINT OF VIEW, foundations can be divided into those which give grants to other organizations or individuals, and those which operate their own programs. Most do the former, and a few do both. There remain a mere handful of purely operating organizations, but their programs are in some respects different, and they require a brief chapter.

### *Grant Giving vs. Direct Operation*

A few commentators have insisted that grant-giving is an essential characteristic of a foundation, and operating organizations are not foundations at all, but endowed research agencies or educational institutions. Marginal cases certainly exist, but the true operating foundation has a wide freedom of choice not available to the endowed institute, which must function in a given field and has often substantial parts of its funds solidified into brick and mortar. The operating foundation, at the will of its board of trustees, can alter its field of interest, change staff, and over night become a grant-giving foundation if it so desires. It is a foundation that believes it can better accomplish its present purposes by operating its own program rather than by making grants.

Opinions differ on the relative virtues of grants and direct operation. The Rockefeller Foundation has been disbursing substantial sums by both methods. On the other hand, the Ford Foundation study committee declared, "The Ford Foundation should avoid direct operations unless no other way can be found

to accomplish a particular objective.” Its current program includes some direct operations, however, and it has set up a number of independent operating organizations to which it now makes grants.

The Twentieth Century Fund, established by Edward A. Filene in 1919, was for a decade purely a grant-making agency.

In the years following 1929, however, the Trustees began to experiment with studies, undertaken by the Fund itself, of social and economic questions of crucial current importance. An increasing proportion of the Fund’s income has been devoted each year to the conduct of these studies, until finally . . . at the Annual Meeting of the Board in June 1937 it was voted to cease making grants to outside agencies after the fiscal year 1937–1938, and to use the Fund’s entire income thereafter in its own direct activities.<sup>1</sup>

Russell Sage Foundation, established in 1907, experimented with both forms for more than four decades. During its first forty years its expenditures were about \$21 million, of which \$9 million were distributed in grants and \$12 million for research and other direct work of the departments, and for administration. In fiscal year 1947–1948 the Foundation adopted new policies, providing for termination of all present grants and devotion of its full resources to an operating program.

The Elizabeth McCormick Memorial Fund, a small foundation established in 1908 with a primary concern for child welfare, began with a grants program, shifted toward direct operations, “and after 1917 the program was planned and conducted entirely through the Fund’s own staff until 1953,” since when it has continued as an operating foundation but includes in its program “direct operation by the Fund, co-operative arrangements with other agencies, or conditional grants for research conducted under other auspices.”<sup>2</sup>

The Julius Rosenwald Fund was driven by depression stringencies from grant-making to an operating program, and found

<sup>1</sup> *Annual Report*, 1937. New York, 1938, p. 9.

<sup>2</sup> *The Elizabeth McCormick Memorial Fund: The Story of Forty-Five Years*. The Fund, Chicago, 1954, pp. 2, 30.



the latter so effective for a small foundation that it continued largely in that pattern. Said its president, Mr. Embree:

During the period of large resources the Fund carried out its programs largely through gifts to other agencies: public school systems, universities, health agencies, special organizations and committees. But during the depression years we had such small funds that outside grants had to be curtailed and our influence was exerted chiefly through studies, experiments, and consultant services of our own staff. We found these direct efforts so effective that even with enlarged resources we are continuing to make them a large factor in our programs. This policy is by no means new in foundation history. . . .

Foundations have a field of usefulness in America through both methods. The larger trusts are almost forced to a policy of disbursement, since it would be cumbersome and inefficient for them to organize under their own auspices staffs and services sufficient to expend the huge sums annually available to them. . . . The choice between the two policies is not so much a question of the superiority of one method over the other as of expediency and effectiveness for the given foundation.<sup>1</sup>

### *Some Examples*

The variety and special problems of operating foundations may be illustrated by brief descriptions of several diverse organizations of this type.

*The Carnegie Endowment for International Peace* was founded by Andrew Carnegie in 1910 "to hasten the abolition of international war, the foulest blot upon our civilization." Though grants are sometimes made to other agencies or individuals in furthering its programs, it is primarily an operating foundation. Its first board of trustees set up as its objectives: "To study the causes of war and practical methods of preventing it; to aid in the development of international law; to foster education on world affairs and promote friendly relations among the peoples of the world." It has spent approximately \$3.5 million out of income on these objectives.

<sup>1</sup> Embree, Edwin R., *Julius Rosenwald Fund: Review of Two Decades, 1917-1936*. The Fund, Chicago, 1936, pp. 9, 11.

In the interwar period it maintained offices in Washington, New York, and Paris. Its publications included the 150-volume *Economic and Social History of the World War* by James T. Shotwell with some 450 collaborators. It published a 25-volume history of Canadian-American relations. Texts of the United States Constitution and Declaration of Independence were translated into various languages and widely distributed, libraries of American books were given abroad, and the teaching of American history aided in universities in England, France, and other nations. Conversely, many American libraries were given collections of books describing life and conditions in foreign countries, and international relations clubs were fostered on the campuses of colleges and universities, chiefly in the United States, but with representation in Latin America, Canada, and the Far East. The Endowment pioneered in the "exchange of persons" and so helped to launch the flow of exchange students, teachers, and technicians which is now promoted by many other organizations and by the government. International law was advanced through the granting of fellowships and support for special institutes.

The current program emphasizes studies of international organization. In over 20 countries study groups have been evaluating their national experience in the United Nations, the reports being made available for their bearing on the UN's problem of Charter review. It continues to encourage study of international relations at the college level, and maintains a substantial publication program, including *International Conciliation*.

A new era may have been ushered in with construction of the Carnegie Endowment International Center, a 12-story building on United Nations Plaza in New York, opened in 1953. In addition to furnishing headquarters for the Endowment itself and housing a reference and information service, the building is designed to provide office space for numerous nonprofit organizations working in allied fields and to offer meeting facilities for groups sponsoring programs related to international affairs. This is the second important experiment by an operating foundation with a service building. Russell Sage Foundation's experience is outlined below.

*The Rockefeller Institute for Medical Research* is a foundation chiefly by reason of its charter, which would enable it to conduct a wide variety of operations, "including research, publication, education, the establishment and maintenance of charitable or benevolent activities . . ." and so forth. It has in fact operated almost solely as a research institute, and has many characteristics of an educational institution. It was founded in 1901 by John D. Rockefeller on the recommendation of Frederick T. Gates, who believed that "medicine could hardly hope to become a science until it should be endowed, and qualified men be enabled to give themselves to uninterrupted study and investigation, on ample salary, entirely independent of practice." The original gift of \$200,000 was to be spent within ten years in grants and fellowships for the training of younger men in medical research. But by 1902 the conception of a research laboratory in New York City had seized the imaginations of the directors, and the success of this enterprise in a small rented building was so outstanding that soon additional funds were provided for permanent laboratories and a hospital. The fields of study expanded to include animals and plants.<sup>1</sup>

The former separate board of trustees and board of scientific directors were merged in 1953 into a single board of trustees. This board determines policies and is charged with maintenance and care of the endowment and property. Within the Institute are two departments, the department of the laboratories and the department of the hospital. The latter admits a limited number of patients (who are treated without charge) suffering from diseases currently under study. The Institute investigates "fundamental biological, physical, and chemical subjects," and gives itself great flexibility:

It is not the aim of the Institute to perpetuate the lines of investigation in which it may engage, or even Departments or Laboratories, should the usefulness or promise of these at any time become doubtful, either from changes in the requirements and outlooks of science, or from lack of leaders of vision or achievement. On the other hand,

<sup>1</sup> *Descriptive Pamphlet: The Rockefeller Institute for Medical Research*. New York, 1953, p. 14.

the elucidation of fundamental problems may proceed under favorable conditions and with adequate support for an indefinite period, unhurried and unhindered by the urgency of obviously practical or immediate results.<sup>1</sup>

Members of the scientific staff are appointed only for fulltime service and are not permitted to pursue outside "gainful occupations." They retain no personal rights in any discoveries or inventions they may make, which become the property of the Institute to be placed at the service of humanity. Recent activities have centered in chemistry, pathology, physiology, and cytology in the laboratories, and in the hospital, respiratory diseases, rheumatic fever, cardiovascular diseases, endocrine disorders, and diseases of the liver.

*Russell Sage Foundation*, it has been pointed out, was both a grant-making and an operating foundation for some forty years, and is now wholly operating. But the patterns of direct operation in the two periods were quite different. In the first period a frequent practice was to make a small exploratory grant in a field of interest, and if that showed promise, to organize a special department in that field, often under the directorship of the person who had received the first grant, if he or she proved competent. For example, the Foundation in its first year made a grant to help extend charity organization work. Mary E. Richmond was chairman of the committee in charge of this function. Two years later a charity organization department was organized with Miss Richmond as director; she remained in charge of this department until her death in 1928, and the department (with a later change of name) survived until 1948. Under similar antecedents various other departments were added; by the 1940's they totaled nine, including a specialized library. The relative permanence of these departments offered opportunity for sustained and cumulative efforts in specialized fields; it also tended toward freezing program and endangered the research function through the accumulation of service and advisory duties as the work of a department became widely known.

<sup>1</sup> *Ibid.*, p. 19.



Russell Sage Foundation constructed a substantial building in 1913 which it expected to use wholly for its own staff, together with providing meeting rooms and a specialized library for welfare agencies in the neighborhood. But unoccupied offices always remained; they were given free for many years to selected welfare agencies, with later nominal rents charged, often offset by grants. A large wing was added to the building in 1931, intended for rental by welfare agencies, and was so occupied for nearly two decades. But in 1949 the Foundation sold this building which "had become burdensome and a financial drain," and now itself occupies rented quarters.

During 1948, under a new administration, the Foundation announced a change in general policy. Although it would become more thoroughly an operating foundation than before, it would abandon the departmental structure in favor of a small coordinated central staff, with the bulk of its operations carried on by temporary personnel employed to conduct particular projects, or in close cooperation with other agencies. Currently Russell Sage Foundation has a central staff of 18 persons; its latest report lists 51 projects.<sup>1</sup>

Proposals within the Foundation's general interests are suggested by the central staff, the trustees, or by outside agencies or individuals. If approved by the trustees, an appropriation is voted and a project director engaged; he may propose additional staff, if needed. Most research projects result in manuscripts published as books or pamphlets by the Foundation's own department of publications. While broad areas of interest may persist for years—the present emphasis is on experiment and demonstration in the use of social science techniques in the practicing professions—each project staff is dismissed after its particular assignment is completed.

*The Twentieth Century Fund* similarly employs outside staff for nearly all of its projects, most of which have been in the field of economics. It recently had a central office staff of 30, which included personnel of its own publishing division and an education

<sup>1</sup> For the earlier period, see *Russell Sage Foundation, 1907-1946*, a two-volume history. For the later period, see *Annual Reports*.



department, which disseminates findings through an unusually extensive program of public education including press notices, pamphlets, a newsletter, motion pictures, radio, and television. During the 1954 year eight research reports were published or ready for press, and six projects were in progress; staff engaged on research projects, exclusive of headquarters personnel, numbered 121 persons.

Since the policy of the Fund is to select for study controversial issues on which wider public knowledge and eventual action is important, it has developed the device of special (unpaid) citizen advisory committees, which are thus described:

The Fund's usual practice is to appoint a special research director for each new project. The director and his associates, working with the general guidance of the central administrative staff of the Fund, are accorded academic freedom in the preparation of a factual research report. In addition, the Fund often appoints a special committee of qualified citizens to review the factual findings and to prepare its own report of recommendations for dealing with the problems disclosed in the research.<sup>1</sup>

In selection of such committees, the Fund endeavors to secure representation of all relevant points of view. In a labor study, for example, the committee would include persons from management, organized labor, government, an economist, and representatives of the general public. For some studies substantial areas of agreement are discovered, and the committee's report on next steps adds materially to the worth of the research findings. In other studies the committee sessions result in a considerably watered down report because of the difficulty of reconciling directly conflicting interests, or is peppered with footnote disagreements. The values of this device are being reappraised. The Fund has also a current trustee committee reviewing its operations in the light of present-day needs to see whether changes in program orientation or methods have become desirable.

*The Milbank Memorial Fund* combines direct operation with grant making in a pattern worth observing. Established in 1905

<sup>1</sup> *Annual Report, 1953*. New York, 1954, p. 6.

by Mrs. Elizabeth Milbank Anderson, early development of this foundation's program in public health fell into three periods.<sup>1</sup> First came exploration, for foundations were then new and trial and error were necessary to discover what causes and objects "would yield the highest dividends in human welfare"; this period lasted from 1905 to 1921. The next decade was the period of demonstration, when the Fund organized and maintained health demonstrations in three selected communities in New York State, one rural (Cattaraugus County), one urban (Syracuse), and the third metropolitan in character (the Bellevue-Yorkville district on New York's East Side), to discover whether intensive application of known health measures would materially diminish sickness and reduce mortality rates. By 1928 the Fund began to organize a small scientific staff to study these demonstrations and make definitive reports. For the period beginning in 1936 the keynote was measurement—of the prevalence of disease, of population problems and trends, and of public health methods and procedures. Most emphasis was placed on ways and means of promoting the hygiene of housing, good nutrition, and mental health.

Currently, about half of the Fund's income is disbursed in grants to other agencies or in fellowships, the balance being used to finance studies of its division of research. The Fund carries on an active publication program, including issuance of the *Milbank Memorial Quarterly*.

### *Elements in Choice*

These few cases give no final answer to the question of the relative desirability of direct operation. Size is one decisive factor. If we except such research and educational institutions as the Smithsonian Institution of Washington and the Rockefeller Institute for Medical Research, which are foundations only under an extension of the definition, the exclusively operating foundations are small. This is almost necessarily so. One operating program may cost the supporting foundation any sum from less than

<sup>1</sup> See *Milbank Memorial Fund, 1905-1940*, New York, 1940; also annual reports for recent years.

\$5,000 to more than \$100,000, with \$25,000 a fair average for a research project involving an investigator and an assistant for perhaps two years. Each such project requires separate action by the trustees, and very substantial time on the part of the foundation's chief executive and central staff. Indeed, the \$5,000 project, involving a tight budget and probably inexperienced personnel, may require more administrative oversight than the one budgeted at \$100,000. It is therefore obvious that the foundation with an annual income in the multiple millions would be ill-advised to attempt direct operation with much of its available funds; the load on central staff becomes too great.

The Commonwealth Fund has an income which now approaches \$4 million a year, and substantially all its disbursements are in the form of grants. This was not always so, and a little more than a decade ago its then general director, Barry C. Smith, set down his thoughts on this subject:

One of the knottiest technical problems encountered in the task of giving away a million and a half to two million dollars a year is the choice of a channel. The simplest way to translate such sums into social action is to hand them over to established agencies for the furtherance of their own programs. . . . But the established institution, by definition, is already able to command support from other sources, and the foundation should be backing needed work that no one else is ready to pay for. Moreover, many established agencies tend to harden about a fixed idea; the most alert find it hard to avoid the lag that creeps in between administrative routine and the changing realities of the world outside.

The foundation may try to act more directly by setting up its own programs to meet what it believes to be pressing needs. . . . The advantage of close connection between a foundation and a field staff is that the foundation can learn as well as lead through such contacts.<sup>1</sup>

Taxation is a possible future factor. At the 1954 Hearings Before the Special (Reece) Committee on Tax-Exempt Foundations allegations were made that foundation expenditures were largely (as much as 90 per cent, one witness imagined) from sums which would have gone to government as taxes except for charitable ex-

<sup>1</sup> *Twenty-Fifth Annual Report of the General Director*. Commonwealth Fund, New York, 1944, pp. 8-9.

emptions. These witnesses failed to recognize that most of the large foundations were created when gift and estate taxes were nonexistent or negligible, and on current income any corporation, without regard to exempt status, is "allowed as a deduction an amount equal to 85 per cent of the amount received as dividends . . . from a domestic corporation which is subject to taxation under this chapter."<sup>1</sup> But The Rockefeller Foundation in its reply pointed out one additional factor:

. . . The removal of the exemption might serve to influence some boards of trustees, as a matter of provident discharge of their trust, to discontinue grants and substitute direct operations in such fields as scientific research, health, or public welfare, on such a scale that the clearly deductible costs of operation would exhaust the income, leaving nothing against which the tax could be assessed. Although the benefits which could be derived from such direct operations might be of great significance, there would be a corresponding loss of flexible and strategic financial reserves available for the support of research and scholarship in established institutions of learning—particularly where uncommitted funds are needed to follow up on promising new leads in scientific and scholarly investigation. Even though it would be possible to discourage the grant-making function of foundations by changes in existing tax laws, these changes would not insure additional funds for the public treasury and might, in fact, work against the public interest.<sup>2</sup>

Such special considerations aside, the decision between grants and an operating program turns chiefly on two factors, size of the foundation and character of available staff. A large foundation should not attempt direct operation for any substantial part of its program. Any foundation undertaking direct operations must have an efficient professional staff, both supervisory and to conduct the program. Therefore, only the relatively small foundation possessing an effective staff finds the operating pattern feasible, but in such hands it may result in very substantial achievement with modest investment.

<sup>1</sup> Internal Revenue Code of 1954, sec. 243.

<sup>2</sup> "Statement of The Rockefeller Foundation and The General Education Board by Dean Rusk" in *Hearings Before the Special (Reece) Committee to Investigate Tax-Exempt Foundations*, Part II. Government Printing Office, Washington, 1954, p. 1074.



*Temporary Staff*

Most of the general observations in the preceding chapter concerning professional staff apply with special force to personnel of operating foundations, where action as well as judgment are required, and staffs may be of substantial size. Additional considerations enter where the plan of operation includes temporary or *ad hoc* staffs on particular projects.

Under this plan the permanent central staff may be relatively small, consisting at the policy level of an executive director and several specialists in fields of the foundation's interest. These may include an educator, or a staff economist, or medical director, or psychologist, as the case may be, together with perhaps a statistician and an editor or publicist. On occasion these specialists may themselves conduct surveys or action programs in their particular fields, but they have the additional task of helping design and supervise special projects for which *ad hoc* staffs are hired.

Difficulties in engaging *ad hoc* staffs were discussed in the appropriate chapter. Supervising such personnel presents many problems, practical and ethical, for the operating foundation. To reduce these difficulties the preliminary negotiations should be conducted with great care, and the chief details concerning scope of project, time schedule, budget, responsibility for and use of the findings should be put in writing, in a contract or a formal letter.

Time schedule is a frequent difficulty. Good research cannot safely be hurried. But all inexperienced, and many experienced, research men severely underestimate the time a given project will require, particularly if a written report is involved. Unavoidable delays, due perhaps to illness of the research director, his assistants, or people he must see, may occur. The very freedom characteristic of an independent job under foundation auspices may prove disastrous to individuals lacking strong self-discipline. One foundation hired an expert in finance to do a research job in his field in 1938, with the mutual expectation that it would be completed in less than two years. With the final aid of a co-author, it was issued thirteen years later, on December 31, 1951—mimeographed, since most of the data were then of merely historical interest.



Where time and human frailties are thus involved, no solution is infallible; but the foundations can take protective measures. First, the experienced central staff should review the proposed time schedule and set realistic and liberal limits, though the project director need not be discouraged from attempting the tighter schedule he may have proposed. Second, the appropriation should not be on an elapsed time basis, but fixed—at the liberal amount which will cover the staff's estimate of time required. Finally, the research director should be asked for periodic reports on the state of his project, and is entitled to similar reports on the balance in his appropriation. Even with all these safeguards some projects will be uncompleted when time and money have both run out. Not infrequently the research director is sufficiently conscious of personal failure so that he will complete the project; otherwise the unhappy choice remains of abandoning it or voting new moneys.

Sometimes projects fail. Indeed, the foundation which does not record at least an occasional failure is either lacking in critical judgment or is avoiding the more venturesome projects where foundation support is most needed. But for the operating foundation such failures offer special problems, particularly if a temporary staff is involved.

The judgment of failure is passed by the professional staff, often after review by a trustee, a committee of that body, or an independent outside authority. The project director, usually a person of high standing in his field, is certain to be distressed at this judgment, and probably disagrees. If publication would have been a normal result of the study, an ethical question rises. An operating foundation has certainly the right to dissociate itself from publication of findings which it believes are inconsequential or inadequately based; but it must also recognize that its own judgment may be wrong, and it has no right to suppress findings. One operating foundation includes this paragraph in its letters confirming appointment of temporary staff on special projects:

Manuscripts prepared for the Foundation are submitted for possible publication by us. If by any chance the manuscript should not seem suitable for our publication, the Foundation will relinquish its

rights with the single reservation that publication elsewhere will be with acknowledgment of the Foundation's contribution in a form approved by the general director.

Where adequate research results in substantive findings, the nature of those findings is not pertinent. Some trustees or members of the professional staff may disagree with them, but this should not affect their treatment. This right of academic freedom is common to both grant-making and operating foundations, but on occasion reacts more severely against the operating organization. For the press and public attribute to the foundation itself any findings or even opinions that may be expressed by a research director on the foundation payroll. Nearly all foundations take the precaution of disclaimer statements in published reports through a prefatory note or a separate statement, as for example:

While the general responsibility for management of the Foundation is vested in the Board of Trustees, the responsibility for facts, conclusions, and interpretations in its publications rests with the authors and not upon the Foundation, its Trustees, or its staff. Publication under the imprint of the Foundation does not imply agreement by the organization with all opinions or interpretations expressed. It does imply that care has been taken that the work on which a manuscript is based has been thoroughly done.<sup>1</sup>

The practical effectiveness of such statements is unfortunately slight. Though the operating foundation, and to a lesser degree the grant-making foundation, must preserve full academic freedom for the research it supports, and would properly be blamed if it distorted, controlled, or suppressed findings, those findings will inevitably be attributed to the foundation itself. From this dilemma there is no escape but in careful original selection of projects and people, and the hardihood to withstand storms of controversy, waiting for the longer, calmer judgment of time.

### *Originating Projects*

It might be supposed that the primary difference between a grant-making and an operating foundation is that the former gives financial support to projects originated by others while the

<sup>1</sup> This notice appears in all recent Russell Sage Foundation publications.

latter sets up its own projects. Neither statement is wholly true. As a later chapter indicates, most grant-making foundations have a substantial part in stimulating and even helping structure the requests for grants they receive, and operating foundations in choosing their projects often benefit by outside suggestions. But the operating foundation does have final responsibility for both originating and administering a program.

It is not enough to select a broad field of interest for general study; usually it is more constructive to define a problem, broad or narrow, and devise projects which test out various hypotheses directed toward solving that problem. For example, probation is an important development; it could be studied in terms of procedures in various states, the supporting legislation, statistical summaries, and the like. It could also be explored as a problem: since society suffers from those probationers who do not make good but repeat their crimes, can objective tests be devised for selecting offenders who are good probation risks? For instance, is the nature of the felony a good criterion? Or age, marital status, job availability, education, family interest measured by visits or letters to the prisoner? The search for problem solutions usually results in broad collection of facts, the devising of still further hypotheses, and at the worst a knowledge of what will not work. In the process both ideas and a man are being developed, and these are the critical shortages in all foundation programs.

Suggestions for projects from the outside should be considered carefully, though usually they will require revision and shaping up to fit into the operating foundation's competence and program. Many "target" projects aimed at a particular and narrow purpose will be proposed; these may once in a while be worth doing for their own sake, but usually should be rejected unless they promise knowledge useful in a larger context or are of the nature of pilot projects capable of repeated application.

In addition to encouraging spontaneous proposals from the outside, the foundation needs to keep in touch with the leaders in its field through constant correspondence, visits, attendance at appropriate meetings and conferences, and through sharing in at least advisory capacities in related programs. The persons it con-

tacts should go beyond the established authorities and the officers of formal organizations. On the dangers of relying only on recognized authority the Ford Study Committee has said:

Some of the officers of foundations have been so fully aware of their great need for cooperation from the whole world of scholarship that they may have leaned too heavily on the advice of the best known experts on any problem, with the result that they failed to recognize and support some of the novel ideas that had the most significance for the future. . . . Advice from institutional sources should not be taken undiluted. It will have the disadvantages of such advice; that is to say, it is likely to reflect the most respectable opinion of the guild, and to be overly cautious about newer and more daring ideas. Formal and long-standing committees are particularly subject to this disease of organized timidity, and are likely to succumb to institutional self-interest.<sup>1</sup>

### *Length of Commitments*

The desirability of time limits on commitments for temporary staffs has been discussed. The situation is somewhat different where "permanent" staff is involved. Among foundations "permanent" is a relative term, since none is known in which the principle of tenure has been legally formalized; but records of long employment are common, and for staff with substantial service records forced separations are rare.

When a permanent staff member has directed an important study, or a series of related studies, he or she becomes a recognized authority in the field and the foundation office a valuable center of information, advice, and service. This stability of interest and increasing knowledge in one field is often of great value to the field concerned, and also to the foundation; for widening contacts bring new germinal ideas and opportunities for effective work. But the demands for committee service, consultations, speeches, and the like may grow to the point where creative work is crowded out; an eager and productive research man may become an expert consultant. Such services are valuable, but they may not be what the foundation intended. As in much foundation administration, wise policy depends largely upon the individual

<sup>1</sup> *Report of the Study for the Ford Foundation on Policy and Program*. Ford Foundation, Detroit, 1949, pp. 105, 107.



concerned. The differing problems may be illustrated by case studies of three employees of operating foundations, whose names are disguised:

Mr. Jones was already an authority in a field of social work when he came to the foundation on a temporary basis for a special study at the age of 57. The special study led directly to the organization of a foundation department in that field, which Mr. Jones was invited to head. After 16 years as head of this department, during which he visited 40 or 50 places annually for study or consultation, published two books and many pamphlets of his own authorship and directed numerous other studies within his department, he decided at the age of 73 to devote the "rest of my working time" to a quite different earlier interest. He continued in this field for eight active years, publishing two studies, the last of which appeared two days after his death in his 81st year.

Mr. Smith joined by indirection, as field secretary of an association supported by the foundation. Within a year he was on regular staff as associate director of a department organized to promote work in his field. Four years later he was director of the department. His work was mainly missionary. He traveled extensively, consulted widely, had a special genius for setting up organizations to conduct needed studies or action programs. When he retired at age 65 after 29 years of service his department had published numerous useful studies, but he had written none of them.

Miss Green shortly after college graduation was employed on a study by an outside agency supported by foundation funds. Two years later the committee conducting this study became an integral part of the foundation, and still later, a department of its work, with Miss Green in charge. Shortly her research began to bear fruit in published studies—four of them in a span of five years. Miss Green was now established as an authority in her field. In one typical year she reported giving 36 addresses, writing 14 articles, serving on 12 committees, chairing two of them. But in the remaining 31 years of her foundation employment only one foundation study appeared under her sole authorship. (She was co-author of two others, and wrote one book for an outside publisher.) A final "fifteen year" study was left uncompleted when Miss Green retired.

### *Research vs. Service*

Particularly for the operating foundation, the choice between research and service is important. Close and continuing contact



with a special problem invariably results in opportunities for service in that field. These opportunities are enticing and sometimes demanding. Moreover, it is completely possible that in a given field new knowledge is much less important than adequate application and dissemination of facts already known. Perhaps the most useful thing a foundation can do at a particular juncture of knowledge and need is to employ a skilled organizer like Mr. Smith and develop a service program. The choice, however, should be made by the foundation, not forced upon it by outside pressures or staff appointments not suited to the work planned. The operating foundation which has determined on a program devoted primarily to research must carefully restrict its replies to service demands, which in moderation can give a realistic base and useful direction to its research, but which too often preempt the time and energies intended for creative work.

### *Reviewing Programs*

Operating foundations in particular should review their total programs at frequent and regular intervals. In them an inevitable tendency exists toward institutionalization and continuance of an interest beyond the point of maximum return. A glance at recent history reveals how rapidly social conditions, and agencies concerned with them, have been shifting. Sometimes our conception of appropriate treatment changes, as in children's homes. Sometimes government takes over a field formerly a first charge upon philanthropy, as financial aid for the needy aged. Sometimes a voluntary agency arises to fill a need for which foundations were formerly a chief resource, as in much disease research.

Grant-giving foundations are under some necessity to review their program in connection with each new application for a grant, but should at frequent intervals undertake a more general review. In the operating foundation this need is more keen. Such a general review should take place at intervals of probably not longer than five years. The professional staff should, of course, share in these periodic appraisals, offering evidence of the fruitfulness of work done, estimates of the importance of continuing particular programs, and suggestions for new ventures. Decision

in these matters, however, is the province of the board of trustees, which might well appoint a review committee at stated intervals.

### *Participation in Publication*

Completed research may be of little value unless it reaches at least a minimal audience of potential users. In the past many grant-making foundations have assumed that worthwhile findings would reach their public. In recent years the sharp increase in the costs of book publication have resulted in severe limitation on specialized studies by commercial publishers and even by university presses. Grant-making foundations are now rethinking this problem, as a later chapter points out.

The operating foundation has usually assumed a larger share in the dissemination of its findings. With permanent staffs and usually longer continuing interests in a given field, many operating foundations undertake to issue their own findings under their own imprint, and some of them engage in wide dissemination activities through a variety of popular media. Details on some of these programs are presented in Chapter 12.

## Applications for Grants

ALL WELL-KNOWN FOUNDATIONS receive numerous applications for grants. The bombardment proceeds by mail, telephone, and personal visit; from individuals, committees, institutions; and is directed upon the foundation's central office, individual trustees thought to be vulnerable, or all the trustees and officers. Such appeals are not a new phenomenon, though they have probably increased with the growing complexity of our society. They reach wealthy individuals also, and may have constrained some of them to organize foundations. It is recorded that when Russell Sage died in 1906, leaving a large fortune to his widow without direction as to its use, she received within six months 20,000 appeals "in writing, besides an uncounted number by word of mouth." For foundations, such appeals are a constant burden, and the necessary rejection of most of them a source of much ill-will; but the remaining few, when carefully screened and perhaps further developed, are the lifeblood of good programs.

### *The Flood of Appeals*

More than thirty years ago the difficulties involved in handling this flood of appeals were noted by one weary foundation executive at the end of his first year as acting president of the Carnegie Corporation of New York. Said Henry S. Pritchett:

A charitable foundation becomes inevitably the Mecca of all solicitors. Each of these is convinced that the cause which he repre-

sents is essential and important. Men can sincerely believe this even when the chief function of the cause which they represent is to furnish salaries for those who conduct it. Nothing is more illuminating in the study of such agencies than to note the wide gap between the accomplishment which they consider themselves to have compassed and that with which unprejudiced and impartial observers credit them. Some causes are exceptional, many are worthy, but the majority are commonplace.<sup>1</sup>

The volume of appeals a particular foundation receives varies with its size, type, and recent publicity. The large foundation is the inevitable target of the uninformed solicitor, who often makes no effort to find out what the foundation's interests are but simply assumes that where so much money is obviously available, his worthy cause ought certainly to be aided. Definite statements of fields of interest and of the types of appeals which cannot be considered may reduce these useless requests over the years, but many applicants do not see or will not heed these limitations.

The Ford Foundation, because of its mammoth size and the publicity which has attended many of its recent operations, is frequently first in the minds of hopeful solicitors and idea middlemen. Appeals were averaging about 300 a month during 1954 exclusive of fellowships, which may run to a hundred a day at certain seasons. Yet in making grants of \$60 million in 1953, it supported only some 168 projects (an average of 14 a month), and many of these were continuations of previous interests, projects developed by the Foundation's staff, or payments to organizations the Foundation itself had set up. Obviously the unsolicited appeal proved acceptable in a very small percentage of the cases.

The Rockefeller Foundation reported for 1952 the rejection of 3,577 appeals. These rejections included the following categories: fellowships, scholarships, travel, and training, 1,652; support of local institutions, 353; scientific research and teaching, 350; general development of educational and cultural institutions and projects, 343; personal aid to individuals, 196; publication of manuscripts, 112; studies and activities in the creative arts, 99; cures, remedies, investigation of theories, and inventions, 70;

<sup>1</sup> "A Science of Giving" in *Report for the Year Ended September 30, 1922*, pp. 15-16.

continued aid to previously supported projects, 52; conferences and meetings, 43; public health projects, 24; purchase or disposal of personal property, 20; charitable agencies or programs, 18; assistance to displaced persons, 8; and miscellaneous, 237.

As this list suggests, the variety of requests for grants submitted to any large foundation is almost unbelievable. Pleas range from the literally world-shaking scope of a study of melting of the polar ice caps with probable resulting displacement of the earth's center of gravity to a small sum "to purchase a home and for my personal needs." We earlier reported:

Among requests for grants recently declined by one foundation are the following proposed projects: purchase of a collection of patent models; financing a campaign for a special religious "week"; promotion of the peace plan of a local woman's club; personal loan of \$5,000 to be used in re-establishing the grantee's "business in a medical line"; contribution toward the Red Cross campaign quota of the proposer's home town; a souvenir booklet on an organization's history; office space for an art center; publishing a folder of helpful religious sayings for service men; an institute to "harvest the ideas and constructive thoughts of the American people"; providing education in domestic science and health practice in a local community; financial help in preparing, publishing, or distributing a number of proposed books; financial assistance for pursuing a course in medicine; preparation and publication of a crime prevention manual; translation and typing costs on the manuscript of a refugee scholar; promotion of singing among boys at naval training stations and elsewhere; purchase of a sound projector; a biological study of 20,000 families.<sup>1</sup>

Some of these appeals, obviously, came from hopeful individuals with a minimum of knowledge of organized philanthropy and how it works. Their format ranged from cheap mimeographed letters sent to extensive lists to gold-embossed brochures with expensive art work. In spite of foundation protests against costly documents that savor of advertising agency production, one experienced campaigner reported great success (chiefly among family foundations) with 30 brochures in gold-printed imitation leather covers with cellophane pockets for illustrations, special printing, all prepared by "the best advertising artist I

<sup>1</sup> Harrison and Andrews, *American Foundations for Social Welfare*. Russell Sage Foundation, New York, 1946, p. 48.



could find" at a cost of over \$1,000 for the 30 brochures.<sup>1</sup> But his gifts, ranging up to \$80,000, were not solely the result of these brochures, for he adds, "In my limited experience I have never received any substantial sum from a foundation without personal contact with at least some of the Trustees, and, with a single exception, I have never failed to receive a substantial gift when such a contact has been made."

The appeals which win substantial grants from large foundations are frequently the considered requests of individuals with institutional backing, presented carefully and followed up with personal conferences. The testimony of Dr. Frederick A. Middlebush, then president of the University of Missouri, before the Select (Cox) Committee to Investigate Foundations is illustrative:

MR. FORAND. Would you, Doctor, for the benefit of the committee explain to us step by step how your institution for instance makes its application for a grant from one of the foundations and how that grant comes to you, whether it is direct or whether it is through channels or something like that. I think that would be very interesting.

MR. MIDDLEBUSH. I will be glad to. Starting within the institution, let's begin with the interested professor down in the department. That is getting down to the grass roots.

He would talk over, in my institution—and institutions would vary in this—as you will understand, but he would take his proposed project up with his dean, and possibly with the dean of the graduate school, and the research council. We would thus get an agreement within the institution itself on the desirability of a request being made for X number of dollars for this type of project.

In my institution we have definite board regulations governing that procedure, and the papers are initialed along the way, so it is not just some one individual getting an idea on his own and being able to go to Washington or Chicago or wherever it might be to get funds for his project. The proposed program is cleared through channels within the institution itself but this is not done at the expense of eliminating individual initiative.

Not infrequently the application, which has been worked out in detail, is taken to the foundation offices by one of the interested parties—it might be the dean—and submitted in a personal conference. As a matter of fact the university official may have talked it

<sup>1</sup> Quay, James K., "Experiences in Approaching Foundations" in *Conference on Wills, Annuities, and Special Gifts*. National Council of the Churches of Christ in the United States of America, New York, 1952, p. 85.

over with a representative of the foundation *before* the application is actually formulated in order to determine whether the project falls within the scope of the grants being made by that particular foundation during that year.

Now within the foundation itself, and the only organization I can speak of is the one with which I am directly connected, and that is the Carnegie Foundation, the project would be cleared through the officers of the foundation and the Board.

A substantial grant, the one that I have already spoken of, of \$750,000 for some 40 colleges and universities in the South, was discussed very fully in a meeting of the board of trustees of the foundation.

I think every member of the board, who was in attendance, became thoroughly familiar with the nature of the problem that these people were attempting to get solved, and how they planned to solve it before a grant was seriously considered. They got the funds.

I would not want to commit myself on the exact time required for all these negotiations. But as I recall, possibly three or four meetings, or better than a year of study within the foundation itself, was required. Then the grant was actually made by the officers of the foundation, with the approval of the governing board of the foundation itself.

Now you understand you may well have other types of foundations, with which I am not familiar, that have quite different procedures, but that is the procedure in the Carnegie Foundation and I assume that it is rather a typical procedure. At least I should think it would be.

MR. FORAND. In other words, the funds go directly from the foundation to the school or college.

MR. MIDDLEBUSH. Right. Now when the governing board of the foundation has approved the grant and it has been cleared, then the money goes directly to the institution—in our case it comes directly to the business office of the university. We set up an agency account on our books for it, and it is operated exactly as any other budgetary item in the total university structure with the funds to that account.

Now it may not all be sent at once, you understand. Or there may be successive checks sent if the grant extends over a period of time.

MR. FORAND. But even if it does come in small parts, it still comes direct?

MR. MIDDLEBUSH. That's right, and it comes directly under all of the governing machinery of my own institution, including our own board regulations on how any dollars can be spent.<sup>1</sup>

<sup>1</sup> *Hearings*, pp. 118–119; with corrections by Dr. Middlebush.

*Case Study—The Davella Mills Foundation*

Examples so far cited have been in connection with general research foundations. But both the volume and nature of the appeals differ somewhat with the type of fund. Family and corporation foundations, for example, have a larger proportion of local appeals, including current support of existing agencies or even individuals. An illustrative example is the Davella Mills Foundation, which concluded its operations in 1954.

This foundation, named after David and Ella Mills, was set up in 1935 by Canadian-born David B. Mills, spark plug and auto accessory manufacturer, with original endowment of \$1.6 million in General Motors stock. There were five trustees, with Mr. Mills serving as president until his death in 1944.

The first trustees' meeting simply obtained a list of Mr. Mills' checks for charitable causes during the corresponding quarter of the previous year and as its initial program duplicated these gifts. Publicity was shunned, but word spread of the Foundation's existence, and appeals began to multiply; instead of quarterly meetings, the trustees were meeting monthly, and an executive secretary was employed. Program broadened, with careful consideration of the special function of a foundation as donor in comparison with a private individual. Support was seldom given to causes with wide popular appeal which were likely to receive adequate support from the general public; aid was given to less popular causes, and to pilot and demonstration projects. Some of these the trustees themselves proposed.

Upon the death of Mr. Mills the Foundation received substantial additional funds. Its program increased. Among recipients of the Foundation's \$11 million in gifts over twenty years were hospitals, colleges, and libraries in the United States and Canada and abroad, homes for children and for the aged, Boy and Girl Scout units, YMCA's, YWCA's, theological seminaries, religious and educational movements, and some 500 students, many of them from foreign countries, in more than 200 colleges. The record of refusals is extraordinarily low, possibly because few people knew of the existence and fewer the substantial resources of this foundation; in the first twelve years some 2,373 grants were

made and no record of declined applications was kept; in the next seven and one-half years 2,360 applications were received, of which 1,179 received grants, though frequently for less than the amount requested.

These figures do not include a final flood of grant requests. On October 1, 1954, through an error on the part of a metropolitan newspaper, an implication was widely spread that the trustees of this \$11 million fund were having trouble giving away their multiple millions by the required date of March, 1955. The fact was that all funds had already been disbursed except for a small reserve to publish a report and close out operations. But although this misinformation was corrected in the newspaper six days later, some 513 persons and agencies rushed in within a few weeks to help the trustees spend their nonexistent millions.

We examined these appeals as a sample of such solicitations. Fewer than half of them specified a dollar amount, the remainder leaving that matter for later negotiation or the donor's generosity. But the 214 mentioning amounts requested a total of more than \$52 million. The requests fell into these broad categories: support of local institutions (hospitals, churches, schools, libraries), 128; fellowships, scholarships, travel and training grants, 97; scientific research and teaching, 53; educational and cultural institutions, for projects or development, 44; personal aid to individuals, 52; youth services, 33; charitable agencies and programs, 25; publication of manuscripts, 25; studies and activities in creative arts, 23; cures, remedies, and inventions, 7; conferences and meetings, 5; purchase or disposal of real estate, 3; miscellaneous, 18. Among the stranger requests received was one for \$25,000 to produce a new soft drink; a mere "\$50,000 to \$100,000" to write books on religious themes; \$10,000 toward a divorce; \$288 to pay a 1952 income-tax assessment.

### *The Lunatic Fringe*

All large foundations, and many smaller ones, are the frequent targets of a lunatic fringe. These persons have new roads to world salvation or ingenious schemes for abolishing poverty at a stroke, or achieving world peace, or inventing perpetual motion. One



such proposal involved flood prevention by killing off cats. The connecting links were these. Cats kill birds; harmful insects therefore multiply because there are not enough birds to eat them up; these insects in turn devour trees, and the tree-denuded hills and plains permit disastrous floods, which erode land, destroy cities, and threaten American civilization. Therefore, kill cats.

Another grant request was based on the idea that sun spots were a primary cause of economic cycles and also of personality difficulties. To offset such cycles and difficulties the foundation should finance the creation of a magnetic band around the earth to short-circuit the rays produced by these sun spots.

These appeals are troublesome. The proposers are earnest, dedicated, and exceedingly hard to shake off. Moreover, once in a while they might be right. A foundation in the seventeenth century would almost certainly have put Galileo in this class, with his queer idea of the earth moving around the sun. So foundations handle even these requests with care.

### *Guiding the Applicant*

In view of the trouble and ill-will generated by the flood of useless applications, many foundations make efforts to guide applicants as to the types of proposals that can be considered and the form of application desired. With respect to types of grants, there is a choice of announcing categories of grants never made, or reporting fields of present interest; and it probably is best to choose both.

Prohibitions can be quite positive. The Rockefeller Foundation carries in its annual reports this statement:

The Foundation does not make gifts or loans to individuals, finance patents or altruistic movements involving private profit, contribute to the building or maintenance of local hospitals, churches, schools, libraries, or welfare agencies, subsidize cures or inventions, or support campaigns to influence public opinion.

Russell Sage Foundation in 1907, its beginning year, declared three categories not within its scope. It would "not attempt to relieve individual or family need," lest there be no money left for



its special function of eradicating causes of poverty. It would give no aid to universities and colleges, since the field of higher education was then regarded as "sufficiently cared for by other large agencies." It would not give "aid to churches for church purposes."<sup>1</sup> But Mrs. Sage personally contributed liberally to religious causes and presented the Church-in-the-Gardens to the residents of Forest Hills Gardens, a foundation project.

The Commonwealth Fund, in a descriptive booklet dated 1954 which it distributes widely, states:

As a matter of policy, grants are not made to relief projects, either abroad or at home; nor to general educational institutions or community service organizations for building, endowment, or general budgetary purposes. The Fund does not make loans, nor make grants to individuals for any purpose other than fellowships.

The General Education Board, now in process of dissolution, long carried these prohibitions in its annual reports:

The Board does not entertain requests: 1) to give or lend money to individuals, whether it be for study, research, or other use; 2) to invest in securities on a philanthropic basis; 3) to support propaganda; 4) to contribute to educational institutions in any manner which would replace, obviate, or render unnecessary support received through normal channels; 5) to support organizations of a charitable, civic, cultural, trade, or other nature, with the exception of colleges and universities and closely related agencies.

The Ford Foundation has announced to applicants these limitations:

Please note that as a tax-exempt organization, The Ford Foundation can give its funds only for educational, scientific and charitable purposes. It does not ordinarily make grants for endowment purposes or general operating expenses; grants for construction are limited to exceptional circumstances in which a capital improvement is a necessary part of a larger program which the Foundation desires to support. It does not support charitable projects limited to local purposes or effects. Its current program does not provide for assistance in the fields of medicine, public health, or the natural sciences.<sup>2</sup>

<sup>1</sup> Glenn, Brandt, and Andrews, *Russell Sage Foundation, 1907-1946*, p. 26.

<sup>2</sup> *About the Ford Foundation*. New York, 1955.

The limitation may be geographic. Although international needs and the effect of conditions abroad upon our own welfare, and even survival, are being increasingly recognized, many foundations limit their activities to the United States, a specific region or state, or sometimes a locality. Such limitation may be in the charter, by action of the trustees, or the effect of parochial legislation. It has been noted that Texas does not grant tax exemption for testamentary charitable bequests used outside the state. It seems more than coincidence that in a recent list of 27 foundations located in Texas, 18 reported operations only within the state. The small foundation may often serve most effectively in its local region, where it best knows needs and persons, but the limitation should be by action of the board of trustees and subject to change, not set up rigidly by charter.

Prohibitions can be definite, but it is seldom possible to be equally specific about areas that will receive support. Most of the larger foundations publish annual reports, in which the prospective grantee can discover the fields and projects for which money has been appropriated in the most recent year. In some cases, however, the support of a demonstration or pilot project in a particular area means that this foundation will not immediately support another project in that field. Moreover, foundations recognize the need for frequent, thorough changes of program. They are also hesitant in setting absolute bounds to their areas of interest, for here lies a danger of missing some undiscovered Einstein with an unconventional proposal of outstanding worth.

Many foundations do, however, report general areas of current interest. The Ford Foundation announced in 1949, and reiterated in 1954, five program areas: the establishment of peace, the strengthening of democracy, strengthening of the economy, education in a democratic society, and studies of individual behavior and human relations. However, some of these areas are very broad, and interpretations by hopeful applicants may be even broader. With respect to the "establishment of peace" program one correspondent seriously requested that the Foundation "please send a rug to my mother for our dining room and paint the living room yellow so that my father can have peace."

In addition to general announcements of areas of interest, professional staffs or trustees sometimes go a step farther by either suggesting a needed project to a person or organization competent to handle it, or cooperatively working out its details. Testimony concerning a Carnegie Corporation grant to Brown University at the Select (Cox) Committee Hearings illustrates this practice:

MR. DOLLARD. Last spring he [Dr. Henry M. Wriston, president of Brown University] and I had a fairly long session about the first two years of college education. Mr. Wriston, as you know, has been in higher education all his life. He has been president of one college and one university, and taught at a third university.

He has been increasingly concerned that the boys and girls come out of high school with a fairly high momentum; that is, they are very interested in the learning process; they are very ready to be stretched and pressed and made to work hard, and that the colleges let them slump in their first year rather than pick up the momentum they already have and get them going faster.

He has been very concerned as to how you could organize the first 2 years of college work to get around this problem, and he came up with what I thought was a very interesting idea for a new series of courses for the freshman and the sophomore year, which were designed to catch the young people's interest, to make them work very hard, but also to make them work with a purpose and a motive, and bring them to their junior year not only better educated but with a bigger head of steam.

Well, I had several discussions of this program with Mr. Wriston. He submitted a long memorandum on it. We discussed it in our office briefly in the spring.

During the summer one of the men worked over similar programs in other liberal-arts colleges to see to what extent this duplicated ideas which were being tried in other places. In October we began a series of staff discussions.

I think we had three, and I think it was the day before the election I went to Providence myself with my colleague, James Perkins, the vice president of the corporation, and we spent an evening and a full day with Mr. Wriston and all of the men who would be involved in this program. When I say "a full day," I mean a full day. It started at 8 and ended at 6.

During that time we had conferred, I think, with perhaps 35 members of the faculty at Brown. When we came back, Mr. Perkins

and I made our report to the staff. It was unanimously agreed that we ought to recommend it to the trustees. We did recommend it at our last meeting on November 18, and the trustees accepted the recommendation.

Now, that is a fairly typical grant, Mr. Simpson.

MR. KEELE. How large a grant was that?

MR. DOLLARD. A quarter of a million dollars.<sup>1</sup>

### *Form of Submission*

It has been indicated that foundations receive appeals through a wide variety of channels and in almost every conceivable format. Their officers are often asked how they would like to receive requests, and what the most effective form of submission is. In candor it must be acknowledged that these are two questions, and the answers are not necessarily identical. Moreover, the answers will differ considerably among the several types of foundations.

Many cases can be cited of the effectiveness of pressure tactics, particularly through personal visits, on donors, trustees, or staff. Such cases usually involve new and family foundations, where giving still largely follows the emotional and impulsive patterns of most personal giving, and experience has not yet brought the protections of formal procedures and investigative techniques. Because of such differences, it is not possible to generalize. Mrs. Wilmer Shields Rich, of American Foundations Information Service, after interviewing many foundation executives on this subject, advised applicants to remember:

1. That foundations are highly individualistic and that no set pattern of appeal works with all.

2. That knowing all you can about the foundation is doubtless your most important tool—the foundation's general characteristics and its size will help you determine whether it is likely to be "project minded" or to give for general budget support in its own region. With the facts in hand, you will not approach a "round" foundation with a "square" appeal.

3. That giving yourself the mental exercise of preparing a clear, concise statement of your needs will not only help you to select more

<sup>1</sup> *Hearings*, Testimony of Charles Dollard, p. 332.



skillfully the foundations you wish to approach, but will make your contact more effective, whether the initial one be personal or written.

4. Finally, that proceeding in this manner makes your appeal more acceptable even to those foundations with which you may have a close personal contact.<sup>1</sup>

The executive of one large foundation asserts that pressure tactics are on the increase, probably because of the growth of a professional fund-raising group that believes this is the fastest road to results. But, says this same executive, "While we try to be objective in our judgments, nothing prejudices us more quickly against a project than the use of pressure tactics or a lavish presentation." In the better-organized foundations no project is voted upon until it has had the customary staff investigation and written appraisal. Each trustee is aware that he is but one member of a board, and himself has no power of approval. Indeed, in some foundations trustees are required to withdraw from board meetings during the discussion and voting on a project in which they have a personal interest.

The first presentation, say most large foundations, should be in writing. A personal interview takes at least half an hour, and then if the subject is promising a memorandum must be dictated and a written presentation still must be made. As for the person who insists that he can talk about the proposal but not write it, this usually means the project has not yet been thought through and is not ready for presentation.

The letter should be relatively brief. "I will always read a two-page letter," says the executive of one large foundation. "If it is longer than that, make it a one-page letter with attachments—which we may or may not read. We would never get through the day's mail if first presentations came completely documented."

At least one foundation has prepared a suggested outline for filing project applications (reproduced on page 183). This outline is not presented as ideal or for universal use, but it does suggest the sorts of information one foundation desires in its applications.

<sup>1</sup> Rich, Wilmer Shields, "How Foundations Prefer to Be Approached" in *Conference on Wills, Annuities, and Special Gifts*, p. 83.



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SUGGESTED OUTLINE FOR FILING PROJECT APPLICATIONS

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1. Name of project.
  2. Organization sponsoring or proposing project.
    - 2a. Is organization tax exempt under Federal and State Revenue Acts?
  3. Address.
  4. Name of Director responsible for organization and its proposed project.
  5. Field of operation (i.e., Public Health, Physical Medicine, Recreation, Education, Case Work, etc., etc.)
  6. Purpose of project—i.e., Why the project?
  7. Historical background of problem to which project is directed.
  8. Plan of development of project.
  9. How results are to be tested and proved?
  10. What does proposer of project expect to be the outcome or results of the project?
  11. What will be the value of these expected results?
  12. How and by whom will the expected results be used?
  13. What will the expected results lead to? i.e., in the way of new methods, changes in practice, new services, lengthening of life, etc., etc.?
  14. Is the proposal diplomatically expedient? i.e., Will it be likely to arouse antagonisms, controversies or create “splits” and schisms?
  15. Information on the personnel involved in the project.
    - a. Who are they and what are their qualifications?
    - b. Have they done this kind of work or similar kinds of work before?
    - c. Are they replaceable? If so, to what extent?
    - d. What is the history of their ability to cooperate and work together as a team?
    - e. Who will serve as consultants to the staff and project?
      - (1). Qualifications?
  16. What is the time budget? i.e., At what times and stages can certain results be expected and when will final project be completed?
  17. Complete financial budget.
  18. What provisions or plans have been made for publishing results of project?
  19. Plan for progress reports to the Foundation. (Usually the Foundation requires 6 months reports. However, certain types of projects might best lend themselves to less frequent progress reports.)
  20. Are other foundations or sources of funds financially involved in this project?
- 

SOURCE: Louis W. and Maud Hill Family Foundation.

The Ford Foundation suggests to applicants this briefer list of points their initial letter should include:

- The objective of the proposal
- The methods by which it is to be accomplished
- The period of time it is expected to take
- The funds required and an estimated budget in some detail
- The qualifications of the organizations or individuals involved, and the organizations' eligibility for tax-exemption privileges
- Whether similar projects have been undertaken previously
- Whether support has been, or is being, requested of other foundations.<sup>1</sup>

### *Receipt and Acknowledgment*

Foundations of every size need an orderly procedure for handling appeals for their aid. Some one person, who may be the office manager or a clerical worker, "logs in" the applications, with notation of date and sometimes a one-line description. Unless very prompt action seems probable, acknowledgment should be made of receipt of the application, with some indication of when a decision may be expected. This is particularly important if long delay is probable, as in the case of boards which meet infrequently and fail to invest executive committees with power to act. If the appeal is urgent with respect to time but seems unlikely to fit into the particular foundation's program, word to this effect, delicately conveyed, may serve the applicant by speeding submission elsewhere. All persons who handle appeals need to remember that the applicant, unless he is a professional fundraiser or extraordinarily experienced, is personally deeply involved in his proposal, and convinced, however trivial it may actually be, that it is original and important and should have immediate attention.

### *Rejection of the Unsuitable*

The large majority of applications must be rejected. They are out of program, they are mediocre or worse, or funds are simply not available. In most foundations, and necessarily in all the large ones, proposals that are clearly outside scope or established

<sup>1</sup> *About the Ford Foundation.*

policies may be rejected by a senior staff officer; sometimes the trustees later briefly review the list of rejected applications.

The form of rejection is important. It is seldom desirable to tell the applicant the real reason for rejection, particularly if the project seems inadequate, unimportant, or even completely unworthy. First, this judgment might possibly be wrong; but secondly, and almost surely, the applicant will not accept criticism constructively but merely be angry with the foundation. Charles Dollard, former president of the Carnegie Corporation of New York, wryly admits that "by those outside foundation offices, and especially by unsuccessful applicants, organized philanthropy is sometimes characterized as the country of the blind," and quotes with approval the advice of his predecessor, Frederick P. Keppel, that it is "better to appear stupid ourselves than to make the applicant feel that he has been silly."

It is perhaps remarkable that foundations do not receive even more violent criticism and ill-will than is now apparent in view of the number of appeals they must collectively reject. How strong these feelings sometimes are is suggested in the testimony of Chester I. Barnard, former president of The Rockefeller Foundation, before the Select (Cox) Committee.

Those people whose requests are refused almost inevitably are inclined to try to save what they think they have to save, their self-respect, by saying, "This outfit has no money from [for?] me because it is supporting that dirty line over here." . . .

There is nothing you can do about it because frequently you cannot tell people why you do not give them money. If someone, a group or an individual, comes and says, "I want this," you cannot laugh his proposition down and try to make him ridiculous, nor can you tell him that in our own judgment he is not competent. He cannot accept that from you. It is the kind of an answer you have to avoid and take the consequence of it, that is, being accused of playing favorites. I think that is part of it.

The institutions who do not get from this foundation at least much, if any, support are inclined to feel that you must be playing favorites with Harvard or Yale or the University of Chicago, or others, and it is not possible to say publicly the only reason you cannot give it to them is that they do not have a group of scholars or scientists in their organization that is really competent for the kind of high-level stuff

that we want to support. You couldn't say it publicly because it hurts the institution. So you have to let them say, "Well, this foundation business is discriminatory," and so forth, and let it go at that.

To publish the truth about these things is not publicly acceptable, just as it wouldn't be acceptable about some individuals.<sup>1</sup>

For these reasons rejections are usually based on limitations within the foundation, without criticism of the proposed project. They should be made as promptly as possible and always politely, but with such definiteness that the applicant cannot convince himself that with a few changes the proposal will be worth submitting again.

If the project seems a worthy one but simply does not fit in existing program, the rejecting letter may encourage submission elsewhere. It is not desirable, however, to suggest the name of a particular foundation likely to adopt it. If such a foundation is known, it is better to telephone or write that foundation, describing the requested grant, and arrange for its submission only if interest has been expressed.

### *A Central Clearing House*

A proposal has often been made that foundations, or some other agency in their behalf, establish a central clearing house to which all grants would be referred, those obviously unworthy rejected, and the remainder given a preliminary screening and dispatched to the foundation operating most nearly in their field. It was suggested in the Cox Committee Hearings<sup>2</sup> that such an organization might serve as a professional staff for the smaller foundations, unable to conduct investigations themselves.

Certain surface advantages of such an arrangement would seem not to outweigh, however, the fundamental dangers. Though foundations have much less spendable income and total resources than the public generally imagines, they are already regarded as gigantic philanthropic trusts presumably wielding vast national influence. For them to act in the most innocent concert would inflate this specter to dangerous proportions. More

<sup>1</sup> *Hearings*, pp. 559-560.

<sup>2</sup> See *Hearings*, pp. 451-452.

significantly, variety and individuality are of the very essence of foundation accomplishment. An unconventional but worthy project may be refused by half a dozen foundations and go on to great success through the aid of still another. It would be dangerous indeed to set up any central body with power to blacklist a project, however skilled and well-intentioned its single group of examiners might be.

Some further steps in the direction of cooperation and interchange of information are desirable. This exchange took place at the Select (Cox) Committee Hearings:

MR. KEELE. One other question: We have been told that since the 1915 investigation conducted by Frank Walsh, foundations have had a horror of collaborating or working together. Do you know whether or not that is true?

MR. FIELD. I think it is absolutely true. It is as much as your life is worth to get a word out of anybody.

Max is trying to find out what some other foundation director is doing. I think it is perfectly absurd, because there could be all kinds of duplications. Of course, the ones that have annual reports you could check pretty well.

MR. KEELE. There is no Sherman antitrust law, so far as I know, that is applicable to foundations. I don't understand it, but I have been told that. They are afraid to collaborate in any way.

MR. HAHN. That's right.

MR. FIELD. Of course, everybody is scared of monopolies or blacklists, or something like that. You might get some of that feeling if they collaborate too closely and some organization would say, "Oh well, we haven't got a chance because the monopoly is against us," and so on.

There might be some trouble, I don't know, but I would think that the more that foundations can talk to each other, the better, myself.

MR. KEELE. I should think that there would be a greater advantage in pooling their knowledge and their experience and picking each other's brains on occasions.

MR. HAHN. It would be particularly helpful to the men who are newer in the business.<sup>1</sup>

This overstates the case. A generous sharing of knowledge does take place. Indeed, one of the extraordinary charges made before

<sup>1</sup> *Hearings*, Testimony of Marshall Field, president of the Field Foundation, accompanied by Maxwell Hahn, executive vice president and secretary, p. 452.



the Special (Reece) Committee to Investigate Tax-Exempt Foundations was that an "interlock," amounting even to a "diabolical conspiracy"<sup>1</sup> existed among them and certain educational agencies, to use their funds in concert for reprehensible ends. This is nonsense, but wide and helpful interchange of information does take place. At the trustee level, many are well acquainted with the trustees of other foundations, and in some instances one man serves two or more boards. The chief officers of foundations usually know personally their opposite numbers in other foundations in their field, and meetings, telephone calls, and consultations are frequent. Officers of the older, more experienced foundations spend a substantial part of their time advising donors and the executives of younger foundations on procedures they have found useful. Regional meetings of foundation executives are now held in Texas, Michigan, and New York. Foundations asked to assist in this study usually gave freely of executive time and opened confidential records.

### *Preliminary Screening*

After the hopeless misfits have been weeded out, the remaining proposals for grants must be handled. In the small foundation without professional staff they may go directly to the board of trustees, or prior to a trustee meeting may be divided among those trustees for advance examination, with report at the later meeting. With larger foundations they pass through a preliminary screening process on the part of professional staff.

In a foundation with special divisions, the proposal is referred to the appropriate division for study and report. Staff contacts with outside experts are wide, and not infrequently outside opinion is also obtained. The Ford Foundation prefers less compartmentalization. Many projects involve two or more fields, and the values of combined judgments are emphasized. While one individual may have the chief task of "working up" the proposal, it comes under general scrutiny of a program committee meeting frequently and consisting of the six vice-presidents and the secretary.

<sup>1</sup> *Hearings Before the Special (Reece) Committee to Investigate Tax-Exempt Foundations*. Government Printing Office, Washington, 1954, Part I, p. 25.

The Carnegie Corporation of New York has a smaller central staff in which any high degree of specialization would be impractical. The staff member who undertakes study of a particular proposal often makes field trips to examine proposal and personnel on the ground. He dictates memoranda of all conversations in which Corporation business is discussed, and these memoranda—together with an extra carbon of all staff correspondence—are regularly routed to top personnel. Wednesday afternoons are sacred to the weekly staff conference at which these proposals, and other Corporation matters, are discussed. A staff member sponsoring a grant is supposed previously to have discussed it with at least one other staff member so that he will be prepared for the questions likely to be raised. In case of severe disagreement at the staff meeting, discussion is adjourned and the two persons with opposite views attempt to reach agreement at private conference; if this proves impossible, the project is brought up again at the next staff meeting with sharpened presentation of the several points of view.

The screening criteria vary widely both with the types of foundations and with their own views. The family foundation interested mainly in supporting local welfare agencies and projects may content itself with scrutiny of financial reports and enough investigation of local conditions to establish relative needs. The corporation foundation may add to these considerations the public-relations value of the proposed contribution, or its possible effect on its own labor relations. Foundations with large resources able to undertake programs of national significance may also differ widely in their emphases, as for instance between the values of original study and the recording, publishing, and bringing into use of facts already known. After its first eleven years the W. K. Kellogg Foundation (established in 1930), reported its choice in these words:

Research is of unquestioned value but support was already available for many worth-while projects. Relief is necessary but has come to be an accepted responsibility of government. Nothing seemed quite so important as finding ways and means to help the average

citizen apply the knowledge that had already been won for him. . . . How could the Foundation best help these people to help themselves?<sup>1</sup>

More than twenty years ago the Carnegie Corporation of New York in its 1933 *Report* predicted certain tests in selection of enterprises to support that have proved generally sound:

The idea, its intrinsic importance, its timeliness, its place in the broad objectives of the foundation;

The individual or group to carry out the work, and the facilities, institutional and other, at command;

The opportunities for oversight and review, and the chances that lessons useful elsewhere may be drawn from the experience;

The quality and weight of recommendation;

The evidence that the financial support of the foundation in question is really necessary.<sup>2</sup>

The outline for filing project applications suggested by the Hill Foundation<sup>3</sup> requests information bearing principally upon these same points. Staff memoranda of a number of the larger foundations have been examined on this subject, and while differences exist in detail and phrasing, the Carnegie criteria are central to all of them. One foundation adds an emphasis on "realistic budgeting and adequate plans for financing," and a warning against supporting overlapping agencies or functions. Another reminds its staff to examine the history of other attacks on the problem, and to ask "why were previous attacks inadequate?" One foundation is concerned about public reaction: "Who potentially favors the project? Who potentially opposes it? Would failure of the project be attributed to the Foundation, to the individuals directing it, or to the sponsoring agency?" In spite of this cautious note, this particular foundation has embarked on a number of projects of distinctly controversial nature.

Not infrequently the staff obtains special advice on projects of substantial importance. Occasionally one of the trustees is an expert in the field concerned, and his opinion is sought. Professional associations and individual experts with whom the staff is

<sup>1</sup> *The First Eleven Years*. Battle Creek, 1942, p. 4.

<sup>2</sup> *Report of the President* (Frederick P. Keppel), 1933. New York, p. 15.

<sup>3</sup> Reproduced on p. 183.

acquainted are further sources. Or the foundation may employ a special investigator on a temporary basis and receive from him a written report.

### *Preparing Projects for Board Consideration*

The preliminary screening eliminates a number of projects which this examination finds unsatisfactory. The residue are promising enough, and nearly enough within the agreed program, to be brought before the board of trustees for final judgment. Most of them will be submitted with favorable recommendation; a few without recommendation; and perhaps several with expressed reservations.

On this group of proposals still more work has usually to be done before they are ready for definite board action. The problems of project design were suggested by Dr. Donald Young, of Russell Sage Foundation, in his testimony before the Select (Cox) Committee:

MR. YOUNG. I spend most of my time trying to develop projects, following through on those that are in operation, stimulating new interest, and seeing to it that the results get out into practice.

MR. KEELE. That is not quite the situation with the grant-making foundations; is it?

MR. YOUNG. I think it is nearer the situation than most people imagine. The general concept that a foundation operates by letting it be known that it has money to spend for certain types of projects, and then waits until projects come in, is erroneous.

I am sure, for example, that the larger foundations, such as the Carnegie Corp., do quite a large amount of planning in order to get the kind of projects they want brought in.

You see, it is not an easy thing to design a good project, especially a large project, but even the little ones.

You don't just sit down in front of a table with a pad of paper and say, "Now, let's make a project." It requires considerable background and considerable effort even on the part of the experts, and for this there is no money.

Perhaps this is one of the difficulties in foundation work: that the people who bring projects in are supposed to be able to design them, to blueprint them to the point where they can be passed upon with intelligence on their own, and the money comes after you have gone that far.



Now, it is frequently said by research people that the hardest part of any project is to get it into that blueprint stage where you know it is worth carrying through. When you have done that, you have done at least a third of your work.<sup>1</sup>

The involved processes in preparing for board consideration a project of substantial importance may be illustrated by an actual example cited by the president of the Ford Foundation.

The vice presidents and secretary constitute a Program Committee which meets several times a week and reports to me its findings on every grant proposal. This involves not only an appraisal of the proposed project but a careful inquiry into the qualifications of the agency conducting it.

If a project is approved by me for recommendation to the board, it is then fully analyzed in materials supplied to the trustees for their study well in advance of their meetings. . . . Let me give you an example of the processing of a grant:

At their last meeting the trustees voted to make a grant of \$500,000 to the trustees of the University of Pennsylvania for a study of consumer expenditures, income, and savings in the United States. This action was the culmination of months of study, investigation, and consultation by the foundation's staff; of a careful appraisal of the results of this work by several trustees individually before their meeting; and of discussion and inquiry at the meeting itself.

The proposal had originated 6 months earlier. At a cost of more than \$1 million, the United States Bureau of Labor Statistics had gathered data on consumer behavior in interviews with 12,500 families in 91 cities. The original purpose was to revise and improve the Consumers' Price Index. This initial purpose was fulfilled, but Government funds were not available to finance additional analysis of the data which would be of great usefulness to economists, sociologists, and marketing and advertising experts. A general public benefit would also accrue, since economists are generally agreed that a greater knowledge of consumer behavior would be useful in understanding and minimizing fluctuations in the economy as a whole.

The desirability of tabulating and further analyzing the data was initially brought to the attention of the Ford Foundation by the Bureau of Labor Statistics in December 1953. In January 1954, members of the Foundation staff discussed the project in greater detail with Mrs. Arynness J. Wickens, Deputy Commissioner of Labor Statistics, and Mr. Robert Behlow, the Bureau's Coordinator of special projects. It was decided that Mrs. Wickens would hold a series of

<sup>1</sup> *Hearings*, p. 390.



conversations with various universities to explore the possibility of a cooperative project. As a result, the Wharton School of Finance and Commerce of the University of Pennsylvania was selected to participate in the project.

In April 1954, the Wharton School, with the assistance of the Bureau, submitted to the foundation a detailed proposal on the project's scope, general purposes, and uses. They submitted descriptions of the source books of basic data to be prepared by the Bureau and of research studies to be undertaken by the Bureau, the Wharton School, and faculty personnel of the University of Michigan, Yale University, and the Carnegie Institute of Technology. They also gave details of a proposed budget for the project, in addition to many other exhibits and schedules.

The foundation then sent copies of the proposal to seven independent, outside experts for their appraisal: [these persons included a member of the President's Council of Economic Advisers, the director of research for the Federal Reserve System, and five professors—including one dean—from as many different universities].

The consensus of this group was very favorable and resulted in constructive suggestions for the conduct of the project.

The validity of the sample used by the Bureau in assembling the original data was the subject of consultation with three experts on sample design [who were named]. These men all endorsed the sample used.

Conferences were then held with those who would be responsible for conducting the project [four names]. The proposed budget was carefully examined, and it was found possible to provide for nearly all the main points of the project even though the requested funds were reduced from \$688,150 to \$500,000.

During April the vice president responsible for economic development and administration programs and the staff member who had assisted him in investigating and preparing the proposal presented it to the foundation's program committee, where it was the subject of a series of meetings. The committee approved it and transmitted it to me. I reviewed it, approved it, and asked the Secretary to summarize the proposal, with my recommendation, for inclusion in the docket being prepared for the trustees' May meeting. After this and prior to the meeting, the proposal was the subject of several discussions between individual trustees and various officers of the foundation. At the meeting, the proposal was repeated by oral summary; and, after discussion, the trustees voted a grant for the project.<sup>1</sup>

<sup>1</sup> "Statement of H. Rowan Gaither, Jr., for the Ford Foundation" in *Hearings Before the Special (Reece) Committee to Investigate Tax-Exempt Foundations*, Part II, 1954, pp. 1024-1026.

Such extensive attention to project design is unusual, but by no means unique. The research foundations with professional staff perform a useful service even to projects that are finally rejected through the suggestions they make and the searching questions they ask while a project is being prepared for board consideration.

Ten days or two weeks before each board meeting most foundations mail to their trustees full agenda, including descriptions of all the grant proposals that are to be voted upon at the meeting. For a substantial grant the summary paragraph in the main agenda may be supplemented by more detailed appendix material, which will usually include a reproduction of the letter or other document originally submitted by the proponent. At the board meeting itself it is advisable to have present the staff member most familiar with the given project, to present it orally and to answer questions concerning it. Ordinarily the full board does not hear the original applicant, though in exceptional cases this may be a necessary or desirable procedure.

The by-laws of most foundations provide for approval of grant appropriations by majority vote, but in practice the objection of any trustee, founded on substantial reasons, is likely to result in rejection. Marshall Field, president of the Field Foundation, reported to the Cox Committee, "I don't think we have ever passed on anything unless it is unanimous, after discussion with the whole board. If there is any objection to it, we just decline it."<sup>1</sup>

Where the proposed appropriations for all the grants being considered exceed the available free money, it is customary to get informal expressions on each proposal and then consider the total budget. Necessary adjustments are made either by eliminating the weakest proposals, voting less than the amount requested where this can be done without serious damage, or extending the time of some projects. Because voted appropriations are usually used more slowly than anticipated and some are never spent at all, foundations that are not rigid perpetuities often vote appropriations somewhat in excess of the year's surplus and anticipated income.

<sup>1</sup> *Hearings*, p. 438.

## Administering a Grants Program

PROCESSING APPLICATIONS for grants is only the first step in a grants program. Major policy decisions must be made in choosing among the more promising applications. What types of grants shall be made this year, under present circumstances? To what agencies? Under what conditions? How much follow-up is desirable, either for checking on the particular grant or for future guidance? In many cases a further question arises—termination or renewal.

### *General Policy*

We consider here only broad policy questions, such as the proper function of a foundation as compared with a private donor; whether controversial subjects should be avoided or specially chosen; the relative values of large grants or more numerous small ones; whether grants shall be made to special agencies, colleges and universities, or individuals; and general administrative procedures. Specific areas of foundation activity are discussed in later chapters.

In its *Answers* to the Select (Cox) Committee to Investigate Foundations The Rockefeller Foundation set down these observations:

Early in the Foundation's history the Trustees recognized that with limited funds and vast possibilities for their expenditure, choices

among various kinds of projects contributing to human welfare were inevitable. They were faced with a choice between two lines of policy: one was to engage in projects which were remedial and alleviatory; the other was to search for problems which lie at the root of human difficulties, and which require for their solution, or for any approach to a solution, patience, tenacity, research, careful planning, leadership, and adequate and continuing funds. The difference between these two courses has always seemed to the Trustees of the Foundation to be the difference between the less important and the fundamental, between a policy of scattered activities and a policy of relative concentration. . . .

In all this work no individual project has been considered an end in itself. Rather the effort has been to choose for assistance only those projects or persons that give promise of becoming, in the words of one of the early Trustees, "the seed corn for the future." The idea is to prime the pump, to look for germinal ideas and to help establish standards that will lead to continuous improvement in the quality of research and scholarship.<sup>1</sup>

Most of the large research foundations accept these general principles, which they may have expressed in different words. But, as Chapter 1 indicated, many special-purpose foundations have no freedom of choice, and the newer family foundations often still follow patterns of individual giving, with emphasis on relief and general support of welfare agencies. Again, the very large foundation may not always find enough "germinal ideas" to absorb all its income.

### *Large Projects vs. Scattered Giving*

Most foundations, in their statements on policy, favor concentration in making grants—in terms of fields or even individual recipients. They build on strength rather than weakness.

"Make the peaks higher," Rose used to say, by which he meant that as the standards in first-class institutions were progressively raised, the radiating effect would spread not only through an entire region but across an entire country. The influence of a Johns Hopkins or a Chicago would in the end reach every campus and every medical school in the United States.<sup>2</sup>

<sup>1</sup> The Rockefeller Foundation, *Answers to Questionnaire*, pp. 30-32.

<sup>2</sup> Fosdick, Raymond B., *The Story of The Rockefeller Foundation*, p. 100. Wickliffe Rose was director of the Foundation's International Health Division.

Another form of concentration consists in repeated attacks, perhaps from different directions, upon the same problem. Frederick Keppel once remarked that "a good foundation is always conscious of the fact that baseball games are won only by 'bunching your hits.'" His own practice, however, showed no slavish adherence to such announced principles:

His inclination to disperse benefactions widely appeared to spring partly from a desire to be fair to all and partly from a fear of playing favorites. Naturally this way of doing things had its disadvantages as well as its merits. There is fortunately room for different schools of thought respecting philanthropic policy and procedure. A good many foundations operate on a theory that is quite different. They try to focus and to concentrate persistently within definable areas or along carefully chosen lines. Keppel's tendency to spread himself wide and thin was trying to some of his trustees. . . .

. . . If pressed too hard, he would say, "I have to play by ear and proceed by 'hunch.' I can't work otherwise."<sup>1</sup>

Edwin R. Embree, formerly president of the Julius Rosenwald Fund and still earlier a vice president of The Rockefeller Foundation, spoke scathingly of "what Frederick Gates used to call the great foundation sin, 'scatteration'—that is, the sprinkling of little grants over a multiplicity of causes and institutions." He added:

The published reports of almost any of the foundations show this trend. A recent report of the (Rockefeller) General Education Board, for example, lists forty-nine "major grants" to Southern white colleges and twenty-eight "major grants" to Negro colleges, thus covering with a light philanthropic dew a cross-section of the respectable institutions of the region. In addition during the same year this foundation made scores of smaller gifts ranging from \$4,100 to as little as \$300 to 137 separate individuals and projects. . . .<sup>2</sup>

Mr. Embree pointed out that "early Rockefeller leadership in the building of the University of Chicago transformed the scholar-

<sup>1</sup> James, Henry, "President of the Carnegie Corporation" in *Appreciations of Frederick Paul Keppel*. Columbia University Press, New York, 1951, p. 58. Mr. James was chairman of the executive committee of the Carnegie Corporation.

<sup>2</sup> Embree, Edwin R., "Timid Billions," *Harper's Magazine*, March, 1949, p. 30.



ship and the cultural level of the Midwest," and Leland Stanford's munificence had been a similar leaven for the Pacific Coast. The South, he added, needed such a standard desperately, and called for a great university for the South, presumably through a major foundation grant rather than the current scattered aid. He seems not to have noticed such aid already given to such universities as Vanderbilt and Duke; indeed, the Duke Endowment had granted to Duke University a total of \$63 million by the close of 1953; total gifts of The Rockefeller Foundation and the General Education Board to the University of Chicago by the end of 1953 were \$39.7 million.

The age of large foundation grants has not ended. Indeed, such grants are probably increasing, due in part to the developing programs of several new gigantic foundations. One suspects the next devastating criticism of foundations may allege wastefulness due to large grants. However, though the number and combined assets of foundations have grown markedly in the past decade, their spendable income has not kept up with expanding national income, and lags far behind the soaring appropriations of the federal government, often in fields related to foundation interests. Therefore, foundations cannot assume a commanding financial position in areas where their contributions once were proportionally large, and must to some extent adjust their programs to activities of other agencies. The 1948 Carnegie Corporation *Annual Report* had this to say:

If foundations, as now appears likely, are to contribute less than 1% of the future national research budget instead of perhaps 40 or 50% as formerly, they must make their contribution with great care and in the light of the best available information concerning the purposes for which the remainder of the budget is being spent. They must husband their limited income for the germinal work, and shun the expensive nose-counting projects which will answer today's question without putting new knowledge in the storehouse for tomorrow's use. They must be increasingly responsive to the opportunities which balance great risk of failure against great promise of social and scientific gain. They must look to the supply of young scientists knowing that personnel is more important in research than money.<sup>1</sup>

<sup>1</sup> "Report of the President," p. 23.

Sound policy suits the grant to the need, within available resources, and concentrates on particular problems or areas for a period of time. For some projects large grants are essential, but small grants, if made in an area within which the foundation has enough experience for good judgment, often accomplish great ends. But it must not be assumed that small grants require little attention; some of them need more staff time than large grants.

The case for large or small grants was thus summed up by Raymond B. Fosdick, former president of The Rockefeller Foundation:

The argument has been that a foundation capable of making large grants for significant purposes should not scatter its funds thinly over a wide area. With this argument there can be little quarrel. On the other hand, it is exceedingly questionable whether a rigid line can be drawn against the small gift. Often, a promising development can be brought to fruition with just a few thousand dollars. Sir Howard Florey's successful pioneering with penicillin required very little initial financial assistance. . . . Bold strokes involving large sums are frequently part of the strategic approach; but sometimes the small gift, rightly placed, can powerfully affect the future.<sup>1</sup>

### *Controversial Subjects*

Should a foundation avoid controversial subjects, or by preference enter such areas? Earlier practice tended toward the "safe" programs. Library buildings, endowment funds for colleges, attacks on hookworms, elimination of yellow fever, these were programs with which nearly everyone agreed. The selection might be disputed, or some of the attendant conditions—as in the heated controversy over pensions for professors. But gifts to education, for research in medicine and public health, for discoveries in the physical sciences, all these were accepted as undoubted contributions to progress and to human welfare.

In certain other areas, notably the social sciences, the attitude is very different. Discoveries nearly always disturb entrenched individuals, institutions, or at least fixed prejudices. Abuse and violent attacks descend upon any person or organization working

<sup>1</sup> *The Story of The Rockefeller Foundation*, pp. 296–297. The initial grant to Howard W. Florey was £250 for laboratory equipment.

in this field. The very methods that are praised for their efficacy in the physical sciences are here regarded as somehow dangerous.

This attitude was startlingly displayed in the testimony of Norman Dodd, director of research for the Special (Reece) Committee to Investigate Tax-Exempt Foundations. Said Mr. Dodd, referring to an alleged educational "network in which foundations have played such a significant role":

It also seems to have resulted in an educational product which can be traced to research of a predominantly empirical character in the inexact or social sciences.

In these fields the specialists, more often than not, seem to have been concerned with the production of empirical data and with its application. Principles and their truth or falsity seem to have concerned them very little. . . .

MR. HAYS. Mr. Chairman, I do not like to interrupt Mr. Dodd, but I have several questions. Right here it seems to me there is one that it might be well to ask him to clarify. He is tossing this word 'empirical' around with a good deal of abandon, and I wonder if you would mind defining what you mean by empirical?

MR. DODD. It is based upon the accumulation of observable facts, Mr. Hays, and the tabulation of those. What we would ordinarily know as a statistical approach.<sup>1</sup>

Five weeks later the only rebuttal witness that was permitted to testify, Pendleton Herring, president of Social Science Research Council, made this response:

The social scientists have an essential contribution to make. They don't know all the answers, but they can explore many of the significant problems and offer highly relevant facts on a variety of important questions. But since the committee's staff and other witnesses have brought into question the methods of the social scientists, particularly their use of empirical methods, I would like to clarify what is meant by the empirical approach.

To approach a problem empirically is to say: "Let's have a look at the record." To employ the empirical method is to try to get at the facts. Where feasible, counting and measuring and testing is undertaken. There is nothing necessarily technical about empirical methods and there is no simple distinctive empirical method as such.

<sup>1</sup> *Hearings Before the Special (Reece) Committee to Investigate Tax-Exempt Foundations, Part I, May 11, 1954, p. 48.*

Congressional investigating committees normally follow an empirical approach. To imply something immoral about using an empirical method of inquiry is like implying that it is evil to use syntax.<sup>1</sup>

The progress of The Rockefeller Foundation from the relatively "safe" areas of medical research and education into the more controversial social sciences and humanities was described by its president, Dean Rusk, to the Select (Cox) Committee to Investigate Foundations:

Now, to determine that human relationships and war were the proper subject of foundation interest was in a sense to determine that controversy itself was a proper subject of foundation interest. Controversy itself tended to identify the location of the problem which might need solution, whether in the domestic field or in the oversea field. . . .

And so about 1928 and 1929 the trustees did consider very fully whether they should not move into fields which were at that point fairly strange to them, fields of social science and the humanities, and it was agreed that they should do so, but on the basis of scholarship and investigation and fact finding, and not on the basis of propaganda or persuasion from any particular point of view.<sup>2</sup>

The Cox Committee asked searching questions of foundations as to whether they made an "effort to aid, assist, or support individuals, groups, or projects representing divergent views on controversial issues" in education, international issues, government and public administration, or economics.<sup>3</sup> A typical statement of policy on this point was that made by the Carnegie Corporation of New York:

When controversial issues exist in a field, the Corporation does not attempt to deal with them by supporting individuals representing all of the various points of view, but rather seeks to support individuals who are sufficiently broad, judicious, and objective to rise above controversy and to knit together and resolve divergent views. The Corporation is sometimes disappointed in its search for such individuals, but this approach appears to be the only sound one. It is certainly the method which accords most fully with ideals of objectivity and maturity.<sup>4</sup>

<sup>1</sup> *Hearings Before the Special (Reece) Committee*, p. 800.

<sup>2</sup> *Hearings Before the Select (Cox) Committee*, pp. 486-487.

<sup>3</sup> *Questionnaire*, sec. E-3(c), 4(c), 5(c), 6(c). Reprinted in *Hearings*, pp. 751-752.

<sup>4</sup> Carnegie Corporation of New York, *Answers to Questionnaire*, p. 32.



The Reece Committee did not trouble to ask foundations about their policies on controversial questions; its director of research simply charged that the foundations together with certain educational organizations had engineered a wholesale revolution of the American people toward collectivism, instancing social security and other extensions of governmental power. Chairman B. Carroll Reece, in his speech before the House calling for creation of the Committee, stressed the same theme, directly and by innuendo:

A very important question, which is vital to the future of the American Republic, was never raised at all during the inquiry of the 82d Congress. This question is: Why do the pro-American projects find it so difficult to get grants from some of the foundations? Some large foundations must answer questions such as the following:

Have they financed studies regarding the excellence of the American Constitution, the importance of the Declaration of Independence, and the profundity of the philosophy of the Founding Fathers? And, if not, what is their excuse for neglecting the study of the basis of the American Republic? . . .<sup>1</sup>

A member of his own committee, Representative Wayne L. Hays, asked for a definition of "pro-American" during the hearings, asserting that: "If pro-American means the pre-1900 isolationist policy of one of the political parties, I want to disagree with that definition of pro-American, because that does not mean pro-American to me."<sup>2</sup> The Rockefeller Foundation said quietly that it would "suppose that a 35-year campaign against yellow fever was pro-American," and that "institutions which nourish the entire range of the religious, scientific, economic, social, artistic, and cultural values of our society are, in the deepest and best sense, pro-American in character."<sup>3</sup>

Of course, danger does exist that a particular foundation may enter a controversial area with the intent, not of discovering facts, but of promoting a particular policy or viewpoint. In 1949 the

<sup>1</sup> Reprinted in *Hearings Before the Special (Reece) Committee*, p. 29.

<sup>2</sup> *Hearings (Reece)*, p. 43.

<sup>3</sup> "Statement of The Rockefeller Foundation and The General Education Board by Dean Rusk, President" in *Hearings Before the Special (Reece) Committee, Part II*, p. 1098.



Judge Armstrong Foundation of Fort Worth is reported to have offered an endowment valued at \$50 million (in eventual yield of oil lands) to Jefferson Military College provided it would teach white supremacy and exclude as students or faculty all "persons of African descent, which includes Negroes, and of Asiatic descent, which includes Jews"; another condition was reduction of the number of trustees of the institution to five, with the Armstrong Foundation naming three of these. The news furor attending the school's refusal of the offer resulted in the further revelation that Southern Methodist University had been offered \$5 million from the same source provided it would bar Jewish students from its classes. When the University's president declined this offer, Mr. Armstrong is reported to have asked its regents to discharge the president and reconsider his endowment proposal.

Few foundations would consider such overt attempts at controlling an institution. A greater danger exists in failure to respect the fine line that divides efforts to increase information from attempts to direct opinion. Rapid progress in mass communication and the techniques of thought control accent the dangers that Frederick P. Keppel foresaw in this area some three decades ago:

Danger arises whenever any group with power in its hands, whether it be a state legislature, or the board of a university or of a foundation, believes it to be its business to use its power to direct opinion. Any such group is a dangerous group, regardless of the manner of its make-up, and regardless of whether its action is conscious or unconscious, and, if conscious, whether benign or sinister in purpose. . . . Foundations themselves are coming to have a progressively clearer understanding as to the distinction between the advancement of knowledge and the direction of opinion.<sup>1</sup>

Because of their freedom from self-interest in most controversial questions, foundations have, perhaps, a resulting special mandate to enter these fields. For they are the only important agencies in America free from the political controls of legislative appropriations and pressure groups, and from such lay controls as temper programs to the judgments and the prejudices of current con-

<sup>1</sup> In *Addresses and Proceedings*, 27th Annual Conference of the Association of American Universities. New York, 1925, p. 71.

tributors. Substantially their only control lies in their boards of trustees. In earlier years the possible actions of such boards were viewed with misgivings; experience has not borne out these fears. When such boards act with vision and courage, which has been the frequent record, foundation funds are in a unique position to energize free minds, directed toward new frontiers of knowledge.

### *Selection of Agency*

Through what channels are foundation funds most efficiently put to work? Even in giving relief choice must be made between direct gifts to individuals and grants to a welfare or religious relief agency. For a research project the possibilities are numerous; choice depends in part upon the nature of the project, in part upon judgment as to the relative efficiency of a particular person, agency, or type of research.

One of the first choices is between individual research versus partnership, team, group, or area research. Some projects, involving knowledge in several disciplines, obviously require multiple personnel. Within the universities the use of research teams is a common practice, though this may reflect the availability of, and the desire to train, numbers of graduate students. Extensive interviews and the collection of mass statistics are necessary features of some projects, and are demanded for others where their value is at least doubtful.

The report of a council for research in the social sciences in one large university, based upon study of the results of many projects through fourteen years, suggests that success may lie less in structuring than in finding in any structure one dedicated and competent individual. Wrote this committee:

We can state the major conclusions of this analysis in a few words. Whenever full responsibility for the research in question has been assumed by one single competent individual, or by a partnership of two individuals, and whenever these individuals have retained the direction of this research as their most pressing professional interest for a period of several years, the results have been successful in all but a small fraction of cases.

When, on the other hand, the project has been assigned to a dutiful committee, the members of which regard the task as an incidental

obligation to the University, the results have been disappointing. To put the point in other words, even those group researches that have been eminently successful have been projects initiated or enthusiastically accepted by some individual scholar, who has been made project director and who has made it his prime responsibility to see the study carried through to completion. . . . Even the successful group researches have taken the form of glorified grants-in-aid to a particular individual.

In the trinity of project, person, and institution each is important but the essential ingredient is the capable individual. It is only with this in mind that we can consider in proper perspective the virtues and difficulties of various arrangements.

### *Grants to Persons*

Very few foundations give grants directly to individuals, and at least one of them has gone so far as to assert that "foundations should not be permitted to contribute to individuals. Contributions should be limited to tax-exempt organizations." With this we disagree; foundations should give their aid to whatever institutions or persons are in the best position to translate such aid into outstanding public benefits. But aid to individuals is administratively difficult. Facts about institutions are usually generally available; those about individuals must be sought. More investigation and greater complications may be involved in a grant of \$5,000 to an individual than in a grant of \$300,000 to an institution of established reputation.

A further difficulty with individuals arises under present conditions of danger and suspicion with respect to subversives. One foundation, in addition to its usual concern for ability and integrity, announced this policy:

In recent years we have also felt it essential to be concerned explicitly with the attitude of the individual or group toward Communism. Quite apart from the national security implications of any such affiliation, the Foundation could not recommend assistance for any scholar or scientist unless convinced that the man in question would employ sound, scholarly and scientific procedure, would interpret his results with objectivity, and would without restriction (except where classified material is involved) communicate his results to

the world of free scholarship. It has become all too clear that scholars and scientists who give their loyalty to Communism cannot be trusted to conform to these basic requirements.<sup>1</sup>

In spite of difficulties, grants to individuals are appealing and frequently rewarding. Andrew Carnegie, we have already noted, desired to benefit the community by placing within its reach "the ladders upon which the aspiring can rise."<sup>2</sup> Such ladders may be institutional—libraries, schools—or they may be grants-in-aid to the individual himself. By far the commonest form is the scholarship or fellowship; these are treated in the separate chapter that follows. Another form is the grant for living expenses while a research or artistic project is under way, with little or no attempt at dictating the nature of the project. Again, the grant may be made for a particular project to be done by a particular individual, the money going either directly to this individual or through a college or other institution or association, earmarked for his use. The latter procedure is adopted by most foundations. Certainly it is administratively easier and safer than direct dealing; but it may be slower and more costly, and unless carefully handled the eventual recipient may find his freedom hedged by the need to serve two masters. Especially in grants to individuals, this matter of freedom is important. Said one foundation executive:

From our beginnings as an institution, we have insisted by word and deed that freedom be a principal ingredient of the Fellowships we give our Fellows. That we also give them money is, of course, true: but the money, without intellectual and spiritual freedom, would help hardly at all to the fulfillment of the purposes of this Foundation, devoted to the highest good of mankind. For the basic condition which makes possible any advance toward the greater good for mankind is freedom for men, as individuals, to find new paths to new truths and new means for their expression.<sup>3</sup>

A large manufacturing company is said to have paid a handsome salary to an inventive executive with the stipulation that his

<sup>1</sup> The Rockefeller Foundation, *Answers to Questionnaire*, p. 46.

<sup>2</sup> Carnegie, Andrew, *The Gospel of Wealth and Other Timely Essays*. Century Co., New York, 1900, p. 18.

<sup>3</sup> Moc, Henry Allen, "Report of the Secretary" in *John Simon Guggenheim Memorial Foundation, 1951 and 1952*, p. 13.



chief duty was to row out on the company lake, and sit there and think. Many foundations are similarly convinced that the most effective way to spend money is not to concentrate on particular projects but to find superior individuals, give them freedom and give them tools.

### *Educational Institutions*

Colleges and universities are the commonest recipients of foundation grants. Such giving may take a variety of forms. It may constitute fixed endowment. It may pay for a building, books, or other equipment, subsidizing "plant." It may be applied to instruction, through supporting a professorship, contributing to current salaries, assisting in teacher-training, or improving the status of teaching. It may finance research. It may assist the needy student through scholarships, fellowships, or student loans. Finally, it may finance study of education itself, its content or its procedures.

*Grants for endowment* were once a common form of foundation aid to colleges. In 1900 income from endowment supplied about 20 per cent of the total operating costs of higher education. The large foundations which shortly came on the scene thought the whole problem of higher education might be solved by simply doubling or trebling existing endowments. The Carnegie Foundation for the Advancement of Teaching greatly stimulated drives for endowment among smaller colleges by making one of the requirements for participation in the Carnegie pension fund for professors the possession by private colleges of an endowment fund of at least \$200,000—after 1921, \$500,000. By 1925 the General Education Board was able to report that it had itself contributed \$60 million to the endowment of 291 colleges and universities,<sup>1</sup> and under "matching" provisions that would mean the addition of \$200 million to such funds.

But in its report for 1925-1926 the General Education Board acknowledged that higher education had less per student than "a quarter of a century ago," when measured in purchasing

<sup>1</sup> Not including its large contributions for endowment of medical schools.



power. The Board had already abandoned contributions to endowment as a general policy, and in 1932, in 1937, and in 1952 gave consent, so far as the Board was concerned, to the progressive removal of restrictions from funds originally contributed for permanent endowment, so that both the General Education Board and The Rockefeller Foundation have given consent, so far as they are concerned, to the use of endowment principal, after the lapse of a specific number of years and on a four-fifths vote of the trustees of the institution concerned.

If a foundation does give for endowment purposes, whether to a college or any other institution, a time limit should be specified after which other uses of the principal may be considered. If such a provision is not included, it may be difficult or impossible to free an endowment even if changed conditions make the endowment useless and both donor and recipient desire the change.

College endowment is also notoriously uneven in distribution. Two-thirds of the total endowment of the thousand private colleges and universities is said to be held by only 50 of these institutions, which enroll less than 15 per cent of college students.

Lower interest rates and increased costs combine to make even the largest endowments less effective educational aids than in the past. Harvard University reported in 1954 an increase of \$57 million in market value of its endowment fund in the past year, to a new high total of \$365 million. But endowment income now pays only 31.4 per cent of total operating expenses as compared with 42.4 per cent in 1940, when the endowment was only \$144 million.

Therefore, few foundations any longer contribute to college endowments, in spite of pressures to do so. Further reasons for reluctance include the feeling that a richly endowed college might cling to useless and outworn curricula, failing to adjust to current needs; the danger that fixed endowments might lose much of their value through price inflations; and a growing concern as to whether profitable investment can continue to be found for the pyramiding sums involved in total philanthropic endowment, life insurance, private retirement and pension plans, and the vast new welfare funds in industry.

*Contributions for buildings* are a close equivalent to endowment, with the advantage that the whole gift is put to immediate use, and it continues to pay a dividend in service so long as the building stands. Foundations are much freer in making capital grants for buildings, libraries, laboratories, observatories, or expensive special equipment. Such gifts may greatly facilitate training or research in a field central to the foundation's current interest. They may often be made in a form to stimulate contributions from other givers, and are usually warmly welcomed. But maintenance costs of new buildings, involving superior lighting, heating, and perhaps air conditioning, have sometimes proved so threatening that the gift was refused.

*Funds for special courses* or services are frequent. Where the foundation's gift covers something the college would normally have supported itself, it releases funds for another need. Where a desirable but not essential service is endowed, the college program is enriched but the primary budgetary burden is not lightened. Some such gifts have been so tightly conditioned that with the passage of time they have become useless; colleges have refused conditioned gifts more frequently than is generally known. Of course, many such special funds result from requests originating with the college authorities and represent a pressing need or opportunity as that college sees it; but whatever the origin of the idea, it should be frankly and fully discussed on both sides before the gift is made.

Examples of such gifts are the Alfred P. Sloan Foundation's gift of \$5.25 million to the Massachusetts Institute of Technology for a new School of Industrial Management; the Old Dominion Foundation's gift of \$2 million to Yale University to expand its program of psychiatric guidance for students, with the same amount to Vassar College for a program of academic and personal counseling for students; and the Carnegie Corporation of New York's continuing support of the Russian Research Center at Harvard University.

*Grants for research*, usually on a specific subject, channel heavy foundation funds through the financial offices of colleges and

universities. "Channel" is used advisedly. The college administration does not always welcome such "soft money" which is likely to disrupt teaching schedules and sometimes covers only the bare material and time costs of the project without allowance for general overhead.

But universities and colleges are the natural training ground of research personnel. In some disciplines, and particularly in the social sciences where many foundations are now deeply committed, most of the leaders of thought are in the universities. Therefore, a foundation interested in a particular problem is likely to turn to an expert in that area in some university. Also, an ambitious professor with an investigation in mind, finding the funds of his own university inadequate or unavailable, turns to a foundation for a grant. Experienced college administrators recognize that teaching should be leavened with original research if it is to remain fresh and vital, and are aware that the reputation of the institution profits from the research of its professors and graduate students; but they understandably wish to clear such research proposals, weeding out the unsuitable and considering the college program as a whole. The larger institutions usually have machinery for this purpose in the form of faculty committees or special research councils.

Approved grants are usually paid directly to the college, earmarked for the specific project. Sometimes such grants are made with quite detailed administrative and reporting provisions, as was the case in the Carnegie Foundation for the Advancement of Teaching's Five-Year Co-operative Experimental Program to Improve Undergraduate Teaching in Southeastern Colleges. This project, begun in 1947, was designed "to assist professors in carrying out research and study projects within the range of their professional competence. Such grants are not necessarily subsidies to cover all the costs of such projects." The Foundation specified that in the case of such subjects as engineering, the grants "should not be for technical and professional research for which industry and other interests may provide funds," and in no case were designed to supplement other research funds or to meet publication costs for research under other auspices. Among

important provisions of the Memorandum as to Procedure were these:

9. A project should be a complete workable unit in itself, or an acceptable, intelligible, well-defined portion of a research area. It should be important, pertinent and promising.

10. The applicant should be competent to do what he proposes, within the time and other limits set. He should be free from avoidable personal and official encumbrances during the period necessary for the undertaking. [The college was required to report whether he would be relieved wholly or partially from teaching, and whether additional staff for relief would be provided.]

12. His proposed plan of operation should be clear and acceptable as to purpose, time, place, procedure, associations, rate of work, and other matters essential to the project. The budgetary estimates should be within limits known to the allocating authority as sufficient and satisfactory.

15. [Reports, available for examination by the university coordinator or Carnegie representative,] should indicate clearly what the recipient believes he has accomplished in relation to what he proposed. They should give informative and descriptive detail as to his procedures, and findings sufficient to enable a reviewer to form an opinion of the extent and quality of the work done.

16. They should include basic factual information briefly stated, such as: amount received and expended; period of work; location; manner of travel; living accommodations; whether original plan of operation was followed; manner of recording work; names of principal persons with whom work was done; unexpected handicaps and advantages encountered; experiences which might be useful to other recipients or the committee.<sup>1</sup>

In addition to preparing these reports which the Foundation would review, the recipient college was asked to consider whether the project had accomplished as much as planned; was it "really worth the time, effort, and money"; and should the record of the work be filed in the library, published in a journal, mimeographed for distribution, or "held in abeyance"? Periodic, detailed financial reporting was required.

A procedure so formally detailed is probably not necessary for programs involving fewer individuals and perhaps a single uni-

<sup>1</sup> *Research—Creative Activity and Teaching: A Report by Howard Lowry and William Taesch.* Carnegie Foundation for the Advancement of Teaching, New York, 1953, pp. 163-164.



versity, where understandings on the basis of personal acquaintanceship are often appropriate. But these are the kinds of considerations any foundation making grants through colleges and universities must keep in mind, and verbal or written understandings on most of them should be reached before the grant is approved. After approval, the grantee should have complete freedom within reasonable reporting requirements.

Foundations are often charged with favoritism in making research grants chiefly to a group of large and already well-endowed universities. Programs can be pointed out in which the opposite is true, with grants placed chiefly or entirely in smaller schools or a disadvantaged region—as in the Carnegie Foundation program for southeastern colleges just examined. But in general a few large universities do receive the bulk of foundation grants. This is so because adequate research facilities and the ablest personnel are largely concentrated in these places. When the primary purpose is solving a problem rather than giving financial aid to a college or training a man for research, it is wise to seek the ablest man. This does have an unfortunate cumulative effect. Not only do foundations turn first to the larger centers where their search is simplified, but as a result, in smaller colleges research opportunities are not being developed, and many of their abler professors gravitate to the larger schools. From many points of view distribution of foundation grants more widely among colleges would be desirable, and would give needed encouragement to creative younger men whose reputations are not yet fully established. But the risks of failure grow, and for the national foundation without a local ear to the ground, the problem of selection is almost insuperable.

When colleges are used as channels for grants for research the indirect costs present another area of difficulty. In accepting grants for research, whether from government, industry, or foundations, many college administrators argue for including in the budget not only out-of-pocket costs such as salaries of personnel involved, travel, and equipment, but also an added percentage for indirect costs. Precedents for this position are found in many college contracts with governmental departments, and are recog-



nized in Section XV of the *Armed Services Procurement Regulations*. The Atomic Energy Commission is currently reported to have abandoned its 8 per cent top limit on indirect costs in favor of a policy of negotiation, based on college participation in costs of a piece of research which it is more eager to do than the agency, but with full costs borne by the agency if the college is lukewarm toward the project. The government's Interdepartmental Committee on Scientific Research and Development could not agree on a uniform policy on indirect costs, but suggested that auditing costs could be reduced "by allowing indirect expenses in an amount not to exceed fifteen per cent (15%) of the total direct cost of performing the project without substantial danger of overpayment."<sup>1</sup>

Many foundations, conscious of the difficult financial position of most educational institutions, include an item for indirect costs in their grant. The Ford Foundation study committee advised that "the Foundation should, when appropriate, include in its grants an allowance for the cost of administration and other general overhead costs." Others, particularly when the grant proposal was initiated by the college itself, take a different attitude. Said one large foundation:

We are not asking the university to perform a particular task, but are willing to assist it in certain projects the university itself desires to do. The foundation therefore will not cover administration costs, for the university should share responsibilities. Involvement of the university is an important factor in our estimate of a project's chance of success.

### *Grants to Associations and Special Agencies*

In addition to using universities, many foundations channel their grants through a wide variety of associations and agencies, some of which are operating organizations while others are intermediaries. The grant may be made toward general support of the organization and its total program. In this case the chief problems are to see that foundation support does not discourage gifts

<sup>1</sup> *Sponsored Research Policy of Colleges and Universities*. American Council on Education, Washington, 1954, p. 64. This volume includes a full discussion of this general topic.

from other sources; that the relative security deriving from such support does not result in loss of initiative; and that the organization does not become a permanent dependent, preventing the foundation from entering newly promising fields.

More typically, foundation grants subsidize a new development or a special research activity. A national health agency might receive a substantial grant for research into a particular disease. A local family welfare agency might receive a grant to maintain a day-care center for an experimental two years, to see if the service was needed and could be made self-supporting. In cases where research is involved, the administrative relationship to the operating agency does not differ greatly from that already discussed with respect to colleges, and the same provisions are in general appropriate.

As compared with the university, the independent agency conducting research in the field of its own special interest has certain advantages in intensive knowledge and exclusive concern with the given area, together with freedom from such distractions as teaching. But such an agency has distractions of its own in the form of an operating program, the need to raise funds, and administrative routines. Moreover, it cannot readily call upon the constructive criticism of experts in other but related fields. With respect to research in the social sciences one foundation president concludes:

There is no substantial evidence that research in the social sciences dissociated from academic life is more favorably situated for efficient operation by virtue of its isolation. Indeed, there seems to be nothing that an independent agency can do which cannot be done at least as well and possibly better in close association with an educational institution.<sup>1</sup>

The recipient of the grant is sometimes an intermediary rather than an operating agency. "Subcontracting" is the term Paul G. Hoffman, when director of the Ford Foundation, applied to this form of operation. The National Research Council, Social Science Research Council, American Council on Education, and other similar agencies are used by foundations for such purposes. The

<sup>1</sup> Young, Donald, "Limiting Factors in the Development of the Social Sciences," *Proceedings of the American Philosophical Society*, vol. 92, no. 5, 1948, p. 333.

agency and the foundation agree on the general purpose of the grant, and the foundation supplies the funds; the subcontracting agency administers the funds, often parceling them out to a number of universities or other agencies able to undertake portions of the project. In the case of the Ford Foundation, some of the early subcontractors were agencies set up by the Foundation itself, such as the Fund for the Advancement of Education, the Fund for Adult Education, the Fund for the Republic. If a foundation itself creates such an agency, it is desirable that true independence be maintained, without interlocking directorships or attempts at control by other means.

Where no agency operates in a field which a foundation sees as desirable, it may sometimes create such an agency and subsidize its beginnings, with the expectation that it will become independent. When Russell Sage Foundation completed the Regional Plan of New York and Its Environs and presented it in published form, it recognized that the plan would not go into effect automatically; it therefore launched the Regional Plan Association, a voluntary organization of citizens of the region, to carry on the promotional work and guide the development of the region in harmony with it. The Foundation made an initial grant of \$25,000 "to enable the Association to get a proper start and secure contributions from other sources." The year was 1929, the eve of the great depression. Grants to the Association finally exceeded \$550,000. It continues to exist, and is now wholly independent of the Foundation's support.

In 1953 the W. K. Kellogg Foundation made a three-year commitment of \$206,000 to the newly organized Foundation for Research on Human Behavior "to provide the initial support for an eventually self-financing organization."<sup>1</sup>

### *Operations Abroad*

Of 54 larger foundations answering the questionnaire submitted by the Select (Cox) Committee, only 15 reported foreign grants; for an average year, the foreign grants of these 15 totaled the modest amount of \$7.7 million, with The Rockefeller Founda-

<sup>1</sup> *Annual Report, 1952-1953*, p. 26.

tion and the Ford Foundation accounting for the major share, \$5.9 million. Some of these programs involve an exchange of scholars, where a chief problem is to find an appropriate agency abroad for their selection. Where more extensive programs are concerned, additional questions arise.

American foundations operating abroad usually confer with the United States Department of State, the government of the foreign country concerned, and frequently with the United Nations. They avoid control of their program, however, by any of these agencies. Ordinarily they will not underwrite a program in a foreign country at all unless it has at least informal clearance from the government concerned.

Changes in government have sometimes been disastrous. The China Medical Board of New York, which prior to 1951 devoted its resources to support of the Peking Union Medical College in China, has abandoned its work in China proper; its 1952-1953 *Report* asserts that the land, buildings, and equipment of the College, valued at over \$7 million, were reported "nationalized by the Chinese Communist Government on January 20, 1951. Full information regarding the status of these properties is not available at the present time."

Staffs abroad are not large. They are described by Joseph C. Kiger, director of research for the Select (Cox) Committee:

Accustomed as we have grown to sizable United States government bureaucracies abroad, the foreign staff employed by these foundations is amazingly small. The number ranges from several informal representatives of the John Simon Guggenheim Memorial Foundation, who never receive more than \$50 a year for expenses, to the 46 full-time staff members employed by The Rockefeller Foundation in its various foreign offices. Because of its historical interest in international medicine and health the latter employs the largest staff. The average number of employees abroad is five or six persons per foundation.<sup>1</sup>

Too little experience has accumulated to warrant definitive answers to the problems of operations in other countries. Should an outright grant be made to an organization or person native to

<sup>1</sup> *Operating Principles of the Larger Foundations*. Russell Sage Foundation, New York, 1954, pp. 70-71.



the country concerned, or should an office be set up abroad for purposes of supervision or direct operation? If the latter, is it better to employ native personnel probably not familiar with the foundation and the problem, or foundation personnel who must become acquainted with a new language and culture? Further study on such questions is needed.

### *Size and Duration of Grants*

However channeled, grants are usually conditioned as to size and duration, sometimes geographically, and sometimes in special ways that may have profound effects.

*Size* may initially relate to power of approval. In many foundations the president or other officers have discretionary funds from which minor grants may be made without prior approval by the board of trustees. In the case of The Rockefeller Foundation:

The officers of the foundation are authorized by the trustees to make grants-in-aid and fellowships from funds appropriated annually by the board of trustees specifically for these purposes. Grants made by the officers pursuant to such authorization amount to approximately 15 percent of all funds distributed by the foundation. Each grant-in-aid is limited to \$10,000. Total allocations to a project may not exceed \$10,000 in any one year, and support to a project through grants-in-aid may not extend beyond a 3-year period. The average grant-in-aid is about \$3,000; not more than 4 percent are for as much as \$10,000.<sup>1</sup>

A more important size consideration is with relation to adequacy. The oft-repeated philosophy of giving "as little as possible for as short a time as possible"<sup>2</sup> needs certain modifications. The very least money that will accomplish a desired objective is often whatever amount is necessary to put to work the ablest person in that field, amply equipped.

Some foundations make small grants even when it is obvious that supplements will be necessary. This, they believe, gives them

<sup>1</sup> *Hearings Before the Select (Cox) Committee*, Letter from Dean Rusk, dated December 11, 1952, quoted on p. 647.

<sup>2</sup> Embree, Edwin R., "The Business of Giving Away Money," *Harper's Monthly*, August, 1930, p. 329.



a chance to examine initial results and then vote additional funds. Several objections exist. Able men are not usually willing to undertake a new project with the possibility that it may be discontinued before completion, and even if they do so, the worry and extra activities involved in seeking renewals may seriously interrupt their work. The foundation can also scarcely avoid the suspicion that it is trying to retain control over the project and its findings. Therefore, it usually is desirable to appropriate at once the complete anticipated costs of a project, even if payment is made periodically or conditioned upon actual expenditures.

*Duration.* The cautions on timing advanced with respect to operating programs need to be repeated in administering grants. The estimates of the prospective grantee are almost always too optimistic. The granting foundation will do well to take a realistic view and expect results slower than promised. The terms of the grant, however, should not encourage dawdling. A terminal period, if this is liberal, is quite appropriate.

Where grants are made to an organization either to give it a start or to initiate some new service which should prove self-supporting, grants in descending amounts are common. In such cases the grants might be \$10,000 for each of the first two years, \$6,000 the third year, and a final \$3,000 the fourth year, these amounts being made known to the organization with the initial appropriation.

### *Matching Grants*

These were once common, and with some variations are still not unusual. In the older pattern such grants were often associated with capital-fund drives, for endowment or building construction. A foundation would agree to match all other contributions to the given fund either on a dollar-for-dollar or a percentage base, up to a given limit. Or it might more dramatically promise "the last \$50,000" of a building fund for \$500,000. The General Education Board's 1951 grant of \$7 million to Emory University, for example, is to be paid in instalments as the University raises additional sums toward the "development program" of \$40 million.

Where the goal is of necessity so large that it might not be undertaken without such help, a matching grant may stimulate other givers and stir the recipient agency to maximum efforts in its own behalf. It is also possible that this illusion of giving doubled dollars may have charmed trustees into ill-considered contributions; and sometimes it may have permitted them to shape the future of an organization unduly through the leverage of a small conditioned gift.

### *Cooperative Grants*

Grants are sometimes shared among several foundations. Sometimes the need exceeds the available resources of a foundation, which invites assistance from one or more others. Frequently foundations belonging to the Kansas City Association of Trusts and Foundations have shared the costs of grants. The several informal groups of foundations in Texas, Michigan, and New York City have discussed possibilities of cooperative grants within their memberships. When a single foundation undertakes only a portion of the cost and the benefiting organization contributes the remainder, the grant is cooperative in a different sense, and is usually called a grant-in-aid.

Sometimes cooperative grants are made chiefly in the belief that the grantee will benefit from wider sponsorship. Operations to date of the Council for Financial Aid to Education have been underwritten by four foundations, the Carnegie Corporation of New York, the Fund for the Advancement of Education, the General Education Board, and the Alfred P. Sloan Foundation.

### *Special Conditions*

Grants are sometimes made with special conditions. These may require certain qualifying standards, perhaps involving changes in the organization itself; or they may attach primarily to the grant, making it available only after specified provisions are met, or requiring assurance of future support for the program initiated. By these means foundations endeavor to raise general standards or ensure favorable conditions for the operation of their grant;

and sometimes such provisions have effects far beyond the expectation of either party.

The most famous example of a conditional grant which set standards for a whole area is the Carnegie Foundation's "retiring pensions for the teachers of universities, colleges, and technical schools." It was obvious that a "college" had to be defined, and by way of definition the Foundation required maintenance of an admission standard for students of "not less than four years of academic or high school preparation, or its equivalent," further defined by units of work; a four-year college curriculum manned by at least six (eight from 1921) full professors; the doctorate for all department heads; and in private colleges a productive endowment of \$200,000 (from 1921, \$500,000). These qualifying conditions were a tremendous lever in raising the standards of colleges, which desired to be accepted both to acquire a free pension system and to retain their professors. A further condition (this one set up by Mr. Carnegie himself) denying admission to the plan if a college remained in any way under the control of a religious sect aroused heated controversy, church interests alleging that the Foundation was intent on destroying "Christian education."

An example of an early conditioned grant specifically designed to affect an educational system was the Peabody Education Fund's offer of a grant of \$1,000 to the city schools of Rome, Georgia, provided the city itself would "vote a tax of \$3,000 and convert private schools into public schools."<sup>1</sup> Grants for library buildings, whether made by Mr. Carnegie or in the later period by the Carnegie Corporation of New York, were conditioned upon the community furnishing a site and guaranteeing an annual support for the library of not less than 10 per cent of the cost of the building.<sup>2</sup>

The older conditional grants, upon which judgments can now be made, have often profoundly affected the institutions and sometimes the whole fields in which they were made, usually in

<sup>1</sup> Quoted in Hollis, Ernest V., *Philanthropic Foundations and Higher Education*, Columbia University Press, New York, 1938, p. 39.

<sup>2</sup> *Report for the Year Ended September 30, 1922*, p. 9.

salutary ways. But precisely because of the leverage such grants exert, care is needed. Critics call them a device for exercising influence out of all proportion to the gift, and question any attempts to control internal policy through a promised financial contribution. The General Education Board early recognized a further refinement; the giver must not stand in the way of internal growth:

. . . Even if it were possible to develop a system of public schools by private gifts, it would be a positive disservice. The best thing in connection with public school education is the doing of it. The public school must represent community ideals, community initiative, and community support, even to the point of sacrifice. The General Education Board could be helpful only by respecting this fundamental truth. It therefore felt its way cautiously, conscious of the difficulty, complexity, and delicacy of the situation.<sup>1</sup>

The line between desirable and oppressive conditions might be quite differently drawn in a particular instance by the grantor, the grantee, and an outside observer. Any gift can work good or harm; and a condition acts usually as a multiplying factor—in either direction. In making a conditioned grant a foundation should take particular care that the condition shall represent, not the giver's prejudice, but a wholly disinterested desire to serve the recipient or the broad field in which the gift is made.

### *Relations with Grantees*

Closely akin to the problems of conditional grants are those of relations with grantees after a grant has been made. The relationship between officers of foundations and grantees is a peculiar one. In this as in other trades, no one shoots Santa Claus. The officer's lightest quip becomes wit of the highest order, and any chance remark is a pearl of wisdom. Criticism, however bitterly felt, is buried beneath a smiling surface so long as a grant, or another grant, is in prospect. It is difficult for a foundation or its officers to avoid highly inflated opinions of wisdom and worth, in spite of such correctives as the remarks of disappointed grant seekers. Undoubtedly some foundation officials succumb to this

<sup>1</sup> *Report for 1902-1914*, p. 12.



adulation and offer judgments and suggestions which the grantees (oversensitive on their part) regard as orders.

Wide agreement now exists that while a foundation has heavy responsibility for care in selecting a project and grantee, after the grant is made it should give the grantee a free hand. This has been a developing doctrine. Here are three statements from officials of the Carnegie Corporation of New York, at different dates:

One of the most difficult problems has to do with the degree to which a foundation should combine with its function of giving money that of giving advice or even of giving orders. This touches alike its treatment of enterprises it helps with money and those for which aid is refused. Of course there is no easy answer. The foundation executive is frequently the best qualified to give sound counsel or even to assume control, and the human temptation to do both is ever present. On the other hand, in his particular case the power he wields is only secondarily that of his own wisdom. Certainly the bulk of recent criticism of foundation policies has been directed against what the writers believe to be the dangers attending the exercise of such power.<sup>1</sup>

The most significant change of all is in their attitude toward the recipients of grants. They no longer feel, as they once did, that the act of paying the piper confers *ipso facto* the right to call the tune in all its notes and quavers.<sup>2</sup>

Having made the grant, the foundation should in no circumstances tell the recipient what conclusions to reach in his research, how or what to teach his students, or what to say in the book that he is writing. Any such practice would be intolerable to scholars and teachers, and at odds with the American tradition of free inquiry.<sup>3</sup>

This concern for freedom of grantees has not always been true, nor is it always true today. Dr. Middlebush, testifying before the Cox Committee, cited an example of a grant offered to a Midwestern university "accompanied with a very strong recommendation that Mr. So-and-so be appointed dean to operate that program."<sup>4</sup> (The grant was declined.) At the same Hearings,

<sup>1</sup> Keppel, Frederick P., *The Foundation*. Macmillan Co., 1930, pp. 47-48.

<sup>2</sup> *Annual Report*, Carnegie Corporation of New York, 1938, p. 47.

<sup>3</sup> "Statement by Charles Dollard, President, Carnegie Corporation of New York" in *Hearings Before the Special (Reece) Committee*, 1954, Part II, p. 957.

<sup>4</sup> *Hearings Before the Select (Cox) Committee*, Testimony of Dr. Frederick Middlebush, President, University of Missouri, p. 116.



Dean Rusk, president of The Rockefeller Foundation, testified that when Cornell University asked for suggestions about organizing curriculum and selecting staff in a special field, he wrote in reply: "As for comment on the curriculum and the choice of staff, it would be distinctly improper for me to offer any. When we make a grant to a university like Cornell, it implies full reliance on the responsibility the university will take in such matters."<sup>1</sup>

Nearly all foundations now follow the Rockefeller pattern, carefully avoiding any control over grantees. Indeed, in recent years they have been charged with "irresponsibility" for failure to exercise such controls. The research director of the Special (Reece) Committee, just after charging foundations with forming "an interlock" with certain educational organizations for "the planning and control of certain aspects of American life," suggested that:

. . . the committee give consideration to the tendency of foundation trustees to abdicate responsibility. To illustrate: The following statement has been taken from *An American Dilemma* . . . 'This study was made possible by funds granted by Carnegie Corp. of New York. That corporation is not, however, the author, owner, publisher, or proprietor of this publication, and is not to be understood as approving by virtue of its grant any of the statements made or views expressed therein.'<sup>2</sup>

Although no course will escape criticism, experience suggests that a foundation should: (1) before voting a grant, make certain of the integrity and competence of the persons involved, the responsibility of the organization, and the worth of the project; (2) after voting the grant, make no attempt to influence appointments or internal policy of the organization, avoid membership on its board, and give counsel only if asked; (3) when requesting financial and progress reports, avoid any suspicion of control over the nature of findings or their distribution. In the unlikely case of complete misapplication of funds or other malfeasance, discontinuance of further payments or action for recovery is warranted.

<sup>1</sup>*Hearings*, pp. 511-512.

<sup>2</sup>*Hearings* Before the Special (Reece) Committee, Testimony of Norman Dodd, pp. 47, 49.

*Follow-up Procedures*

Where a simple and definite purpose is involved—as in a contribution to a building fund—follow-up is unnecessary. Smaller foundations without professional staff may have no facilities for follow-up. Detailed reports even with the larger foundations are the exception,<sup>1</sup> with letters, visits, and informal procedures more nearly the rule:

No formal “follow-up” is made. In our letter of notification to the grantee we request copies of the published reports of scientific work resulting from our grants. These, together with progress reports, are in our files.<sup>2</sup>

One foundation, which includes in its program the “citizenship giving” of its principal donors, maintains an “Item File” with a separate folder for each grantee likely to be met in subsequent years. A typical folder includes a brief history of the organization, a list of officers and board members, a financial summary for several recent years, details of the specific grant request, appraisal by a member of the foundation staff together with his recommendation, the action taken, and frequently a list of other large contributors. Such records are particularly useful to family and corporation foundations, where continuing support for operating agencies is considered.

The Ford Foundation reported to the Cox Committee that it does follow up grants, ordinarily requiring program and financial reports semi-annually and at the conclusion of the grant period. Moreover,

Whenever it appears appropriate the Foundation takes steps to obtain an evaluative judgment on the program of a grantee from persons familiar with its program but not affiliated with the grantee. The Foundation occasionally has employed consultants for this purpose. Follow-up by investigation is to be distinguished from direction or control. The Foundation . . . relies upon its grantees to

<sup>1</sup> But see p. 211 for reports required by the Carnegie Foundation for the Advancement of Teaching.

<sup>2</sup> Josiah Macy, Jr. Foundation, *Answers to Questionnaire*, p. 8.

carry out their programs and operations in a careful and prudent manner.<sup>1</sup>

The Rockefeller Foundation follows up its grants both by maintaining contact with recipients and keeping in touch with the supported projects. But any true investigation would precede the grant; follow-up measures are quite informal, except for routine budgetary procedures, for "creative scholarship flourishes best in an atmosphere of responsible freedom." Financial reports where grants are payable in instalments over a period of time are thus described:

Payments are made on the basis of budgets presented to the officers, and the recipient is required to submit a periodical report of receipts and expenditures. These budgets and reports help Foundation officers to keep informed of work in progress and to determine whether or not the funds are being spent in accordance with the terms of the grant. If there is any departure from the intent of the grant, as a result of misunderstanding or otherwise, the Foundation officer concerned with the grant is in a position to take any necessary measures before the succeeding instalment of the grant is paid.<sup>2</sup>

Nearly all the larger foundations do follow up their grants to some degree. Financial reporting is the bare minimum. Most of them require also progress reports if the project extends over a substantial period of time, and a final reporting on results. They may visit the project at various times, or—as is the frequent practice of the Carnegie Corporation of New York—hire on a temporary basis an outside person to go over the results of a grant in its mid-career or on completion. The Corporation believes that such appraisals are more objective than a staff appraisal might be, and from such outside comment lessons useful to the Corporation's future giving are often learned. Not infrequently, these reports are forwarded to the grantee, of course after elision of any items of a highly personal nature.

A delicate line divides the checking procedures required for a foundation's efficient operation from attempts to control a

<sup>1</sup> Ford Foundation, *Answers to Questionnaire*, pp. 15-16.

<sup>2</sup> The Rockefeller Foundation, *Answers to Questionnaire*, pp. 43-44.

grantee. Most foundations try not to overstep that line. For example, the Ford Foundation study committee urged that its trustees and officers "follow rather scrupulously" this rule of conduct with grantees:

The Foundation will make almost as great a contribution by the advice that its officers are able to give out of their knowledge and experience as by the money it grants. The Trustees should therefore encourage the officers to give freely of their time as consultants to important institutions or enterprises. The officers should, however, be careful to distinguish between their role as consultants and their role in the provision of grants. Once a grant is given for a project, the Foundation officer should not attempt to control it. On the contrary, he should make every effort to leave full responsibility in the hands of the man in charge of the project and if asked for advice he should give it only with restraint and detachment. Similarly, he should be sensitive to situations in which his advice is being asked as a preliminary step toward an application for a grant.<sup>1</sup>

### *Subsidizing Publication*

Another aspect of appraisal and reporting is the final record of the project itself, if it has involved experiment or research. Should this be a bound book issued by a commercial publisher or university press; a pamphlet; an article in a scientific magazine; a mimeographed paper; or, in the Carnegie Foundation's euphemism, should the record be "held in abeyance"?

Under present publishing conditions, few books or pamphlets on specialized subjects can be issued without a printing subsidy, and there are extra costs in preparing a final manuscript for the typesetter, proofreading, indexing, and the like. Often the original budget request includes an item for these publication costs. Many foundations accept this item, on the principle that if the project was worth a grant of perhaps \$20,000 or more for the original investigation or pilot study, it would be a pity if its results should fail to reach the persons and groups who could profit from it for lack of an additional \$1,000 or so.<sup>2</sup>

<sup>1</sup> *Report of the Study for the Ford Foundation on Policy and Program*. Ford Foundation, Detroit, 1949, p. 126.

<sup>2</sup> Reporting and other forms of dissemination as a direct operation of the foundation itself are discussed in Chapter 12.

One foundation strikes from the original budget any publication item. If a worthwhile project results, however, it will sometimes vote an additional appropriation to aid publication, this grant being limited to publication by the most economical means. It seldom accepts a project which involves chiefly the subsidizing of a hopeful author who has a tremendously important book to write. Unless he has a record of at least one earlier publication to show, sad experience indicates that the chances for a worthwhile job are so slender the gamble should not be taken.

### *The Failures*

No foundation engaged in a venturesome program can avoid mistakes and failures. Indeed, the failure itself may be constructive if the project design has not been at fault and the result is honestly reported; for it shows one road that need not again be attempted, and by narrowing the field helps point the direction for successful search.

Even business organizations intent on profit are accustomed to long chances. Said E. I. du Pont de Nemours and Company in a recent report:

In research . . . 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's no advance guarantee, 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.<sup>1</sup>

Barry C. Smith, when general director of the Commonwealth Fund, tried to reach a statistical analysis of failures in the Fund's grants to independent organizations over a period of years. Reported Mr. Smith:

Since this study was made by the staff which in all but one instance had recommended the grants in question, it might be expected perhaps to be reasonably sympathetic. The conclusion arrived at by consensus of judgment was that 12.4 per cent of the grants had pro-

<sup>1</sup> *The Story of Research*. E. I. du Pont de Nemours and Co., Wilmington, 1951, p. 23.



duced results of unsatisfactory character, while an additional 6.9 per cent had resulted in complete failure. The remainder were reasonably satisfactory in results. This is not a bad record even for an organization which makes a most careful study of each proposition before acting; but it illustrates that giving which will secure returns is not the simple thing it might appear.<sup>1</sup>

Lindsley F. Kimball, vice president of The Rockefeller Foundation, once observed that:

If one were to attempt an appraisal of results achieved following any particular grant of funds, he would immediately discover that he was appraising human performance. In every case of failure it would be less likely that the original idea turned out to be defective than that the disappointment would inhere in the operating personnel.<sup>2</sup>

When failure is of this type, rather than simply a wrong turning in a long search competently conducted, the project should be abandoned without attempts to patch up or gloss it over. Additional funds spent on such tottering structures are usually wasted.

### *Termination or Renewal*

A corollary of the "venture capital" concept of foundation grants is the doctrine of discontinuity. A foundation should not commit its income for long periods, but as soon as a project has proved itself—or decisively failed—the foundation should withdraw, to explore new fields.

This doctrine is more widely accepted in theory than followed. When Russell Sage Foundation was established in 1907, advice on grant policy was sought from many leaders in philanthropy. Two of these persons were most insistent upon the need to keep funds free, urging a policy of making grants to operating agencies only in diminishing amounts over a period of years ("say five"), and ceasing altogether at the end of the period. They were officers of an organization that requested and received grants from this Foundation for the next thirty-six successive years.

<sup>1</sup> Smith, Barry C., "Philanthropic Dividends." Mimeographed paper.

<sup>2</sup> "Human Needs and Philanthropic Opportunities," an address before the National Committee on Community Foundations, Buffalo, N. Y., 1954.

If a project or organization is merely limping along as the grant approaches exhaustion, a plea for renewal is certain. The foundation must then consider whether it should be abandoned, probably to die, or supported for a further term in the hope that it will become viable.

When a limping project represents a new enterprise within an existing institution, such as a university or social agency, the parent institution complains that it has been saddled with a program which it is now not desirable to drop, but which imposes a heavy financial burden. One university administrator calls these "inciting grants." Where the foundation has recommended or urged the project, this complaint has much validity even when both parties believed the program would be self-sustaining by the end of the trial period. Where the grant was made entirely at the urging of the institution, the foundation may still need to consider the case for extension on its own merits.

Even when a project advances on schedule and shows every evidence of success, the foundation is likely to receive requests for renewed grants. In this case the requests may be even larger, for a successful project almost always can be vastly expanded in a number of new directions. It is hard to resist a plea for a little additional investment which should multiply results in a field already yielding high social dividends; and frequently such pleas should not be resisted. But what was intended as a small experiment for brief commitment may turn into a large and continuing involvement, with loss of freedom for new ventures. Drastic terminal action may at some point become necessary.

Where support has continued for a substantial period, a terminal grant covering several years, perhaps in descending amounts, is a usual practice. One foundation, in announcing such a program, offers the agency the whole amount at once, to be budgeted by the agency over the agreed three- or five-year period. Such offers are usually accepted; if the agency should unwisely spend the total amount before the end of the agreed period, it nevertheless cannot come back for a new grant, and by the expiration of the period so much time has elapsed since the last contacts that renewal efforts are unlikely.

Executives of another foundation take an opposite view. They admit that a three-year terminal grant paid at once would help break down the pathway to the foundation's door. But they believe that most organizations would spend such a grant within the first year, and the effects might be disastrous to the agency. Regarding terminal grant procedure as important as the initiation of grants, they prefer not to offer temptation through prepayment of terminal amounts, but to fortify themselves against renewal requests.

## Scholarships, Student Loans, and Fellowships

**S**TUDENT AID has always been a major interest of philanthropy; it appears in the programs of so many foundations that a special chapter was indicated. Such aid may be offered as an undergraduate *scholarship*, based on need, a competitive examination, or other selective device; or a *student loan*, with the expectation that the principal, usually with interest, will be repaid; or a *fellowship*, usually restricted to graduate study by scholars of proved ability or for advanced work that may be conducted entirely outside academic circles.

One of the most important contributions made by foundations has been through scholarship and fellowship programs. Over the years the foundations have searched for younger people with unusual talent, and by providing funds necessary to their advanced training have helped develop the manpower essential for leadership and creative achievement in science, education and other important fields of endeavor. The selection of such younger men deserves the best skill and experience which can be brought to bear, and ways and means must be continuously sought for recognizing talent at an early stage. Dollar for dollar it is probable that these grants have given the largest return to society of any single foundation activity. This has been one of the primary interests of The Rockefeller Foundation which has supported directly and indirectly more than 9,000 fellowships. The character and benefits of this effort are summarized

in the Rockefeller Foundation Directory of Fellowship Awards 1917-1950, a copy of which accompanies these answers.<sup>1</sup>

### SCHOLARSHIPS

The scholarship concept has changed radically in recent years, with the emphasis shifting from scholastic merit to financial need. This is in part a reflection of the extraordinary increase in the costs of college education. Up to 1659 the total expense for Harvard graduates, including four years' residence in the college, ran from \$100 to \$200. In this or other comparable private colleges the four-year cost is now in the neighborhood of \$8,000. Just when a college education has been accepted as a near necessity for a substantial proportion of American young men and women its costs have risen to a point where they are nearly intolerable for any but wealthy families, at least if two or more children are simultaneously in college.

Partly to meet this situation, scholarships have greatly increased in number. Their total is not known, but the United States Office of Education recently reported 141,554 scholarships from all sources in 1,198 colleges. These were awarded for a variety of reasons, including service in Korea, living in or near Lithopolis, Ohio, agreeing to enter teaching or the ministry, and growing to a height of more than six feet, which makes basketball prowess practically a certainty. Educational ability was often a criterion, but was seldom decisive unless connected with need. Indeed, whatever the selecting criteria, the amount of the scholarship was usually determined, even to final dollars, by a close investigation of need.

Under this circumstance it is a misnomer to call these grants scholarships. They are educational grants-in-aid. Indeed one foundation, the Angier B. Duke Memorial, has abandoned the term scholarship, dividing its gifts to students into "grants-in-aid" where a needs test is applied and "regional prizes" where the award is based on merit alone.

Scholarships come from a wide variety of sources, wealthy individuals, associations, foundations, business corporations, the

<sup>1</sup> The Rockefeller Foundation, *Answers to Questionnaire*, pp. 144-145.



schools themselves, governmental units. The concern of this chapter, however, is with foundation projects in this field. The Rich directory<sup>1</sup> lists 198 foundations currently interested in fellowships and scholarships by confirmed report, and a total of 376 in whose charter, stated purposes, or recent grants this field is represented.

### *Selection of Students*

In almost any scholarship plan, the candidates far exceed the resources. In making choices, therefore, shall primary consideration be given to financial need, or to scholarship, or will there be a weighting for these factors along with such others as character, participation in school activities, an estimate of leadership ability? In his will Cecil Rhodes, British empire builder, set up these principles for the selection of Rhodes Scholars at Oxford:

My desire being that the students who shall be elected to the scholarships shall not be merely bookworms, I direct that in the election of a student to a scholarship regard shall be had to

- (1) his literary and scholastic attainments;
- (2) his fondness for and success in manly outdoor sports such as cricket, football and the like;
- (3) his qualities of manhood, truth, courage, devotion to duty, sympathy for and protection of the weak, kindliness, unselfishness and fellowship; and
- (4) his exhibition during school days of moral force of character and of instincts to lead and to take an interest in his schoolmates, for those latter attributes will be likely in after life to guide him to esteem the performance of public duties as his highest aim.

Other quite specific criteria may be set up, depending upon the purposes of the program. The LaVerne Noyes Scholarship Fund awards its scholarships to descendants of veterans of World War I. The Sears-Roebuck Foundation confines its scholarships to farm boys entering agricultural colleges with a view to giving them help in their first year in college, but with provision for continuation of the scholarship for a small percentage with exceptionally high grades. Other company foundations characteristically limit

<sup>1</sup> Rich, Wilmer Shields, *American Foundations and Their Fields*. 7th ed. American Foundations Information Service, New York, 1955, pp. xxxvi, 737-738.

their scholarships to sons and daughters of employees. The Atkinson Charitable Foundation of Toronto has made several grants for college training of the deaf through the Canadian Deaf Scholarship fund. Geographical limitations are common, particularly with smaller foundations and community trusts; these sometimes assist only students from a given city, county, or state, or limit aid to students going to a particular school or schools. Again, the limitation may be with respect to study in a particular field, a subject later discussed.

The regional "prizes" of the Angier B. Duke Memorial are an example of scholarships in the older sense, with no consideration of financial need. They are limited to residents of the states of North and South Carolina for attendance at Duke University. Thirteen such awards are now made annually, worth \$1,000 per academic year and continued through four years if the winner remains in the top quarter of his class. The bases of selection are these:

1. Secondary school scholastic record (candidates will be restricted to the upper 25 per cent of their classes).
2. College aptitude as shown by tests.
3. Breadth of interests and native ability as indicated by extracurricular activities,—their nature, quantity and degree of success attained in each.
4. Participation in church and other organizations, with particular reference to the display of qualities of leadership.
5. Personality, appearance, stability, poise, and vitality as evidenced in personal interviews.<sup>1</sup>

Establishing criteria is only the first step in student selection. Shall the foundation do the choosing, or delegate it? The problems are not simple. First, adequate announcement of the scholarships must be made so that promising students will apply. If candidates are numerous, a preliminary screening will remove the obvious misfits. Where scholarship is one criterion, objective tests should be conducted by some independent agency; school grades are not always revealing, particularly if several different schools are involved. The need situation may have to be investi-

<sup>1</sup> *Report*, Angier B. Duke Memorial, Inc. New York, 1951, p. 11.

gated. Correspondence with high school principals, guidance advisers, friends of the family, college deans, and others will be involved. And for nearly all programs a leisurely, full interview with at least the finalists for the award is required.

One foundation tried to solve this problem by using volunteer interviewers, largely faculty members from neighboring colleges. This method was simple and inexpensive, but had little else to commend it. Because of the number of applicants, the interviews were brief and superficial. The system was abandoned "when it was discovered that some of the volunteers were exploiting the interviewing opportunity to recruit boys for their particular institutions."

The Chicago Community Trust administers three scholarship funds, permitting the granting of 157 scholarships amounting to \$95,913 in academic year 1953-1954. Two of these funds are limited to graduates of high schools in Cook County who may go to a wide variety of colleges; the other is for nurses' training in a number of named schools in the Chicago area. Selection for the college scholarships involves these steps: Recommendations are made by principals and senior advisers of all public and private high schools in Cook County. The resulting applications, after review by the Trust's office, are referred to the Scholarship and Guidance Association, a private social agency in Chicago, which administers a battery of psychological, aptitude, and personality tests. On the basis of these tests, the most promising candidates—and their parents—are carefully interviewed by caseworkers of the Scholarship and Guidance Association. A report summarizing these interviews, the test results, and the recommended amount of the scholarship for each of the finalists is submitted for separate study to the chairman of the Scholarship Committee and the executive director of the Community Trust, with final selection made after joint discussion of each case.

Where scholarships are limited to a single named college, the process of selection may appropriately be turned over to the college itself. Indeed, if the sole function of a fund is supplying scholarships in one college, little need for separate organization exists. Unless the donor has financial reasons for not desiring his

funds to be invested and administered by the college trustees, matters would be simplified by transferring the trust at once to the college.

Where selection is to be made from a special group, as for example a "sons and daughters" scholarship plan of a corporation foundation, problems in public relations may be encountered. The carefully thought out plan of the Ford Motor Company Fund may serve as an example.

### *Ford Motor Company Fund Scholarships*

Beginning in 1951, approximately 70 four-year college scholarships have been awarded each year to sons and daughters of Ford Motor Company employees who receive base pay of less than \$786 per month (in 1955). Sons and daughters of former Ford employees now deceased or retired also are eligible under certain conditions. The applicant must be a high school senior in the top third of his or her class, and is chosen on the basis of test scores, class standing, recommendations of high school principals, and other factors, by a scholarship board composed of nine noted educators. Under terms of the scholarship grants, the Fund makes a contribution to the college selected by a winner. The amount covers general tuition, fees, and a portion of cost for room and board for the normal academic year. The maximum grant made for living costs is \$300 in the case of a student living at home, or 80 per cent of reasonable room and board cost with a \$750 maximum in the case of a student not living at home. Scholarships continue for four years if satisfactory personal and scholastic standards are maintained. The Fund also will contribute an annual \$500 cost-of-education grant to privately endowed colleges or universities for each winner in attendance. By this means the Ford Motor Company Fund makes a direct contribution to the private colleges of the nation without the onus of selection; the scholars do the choosing. In full operation this program may cost some \$400,000 annually, of which possibly \$60,000 will represent the cost-of-education grant, depending upon the proportion of private colleges chosen by the winners.



Several other companies now operate similar plans, a few including a cost-of-education supplement. The Union Carbide Educational Fund, in addition to full tuition and certain other allowances for the student, grants \$600 annually per student to selected liberal arts colleges and technical schools, with \$100 earmarked to supplement the salary of the faculty member assigned to counseling the student. For 1954-1955, the goal was 400 such scholarships.

### *The National Merit Scholarship Corporation*

The most significant new scholarship plan, and one that may have wide influence on the selection process, is that of the National Merit Scholarship Corporation, initiated by the Ford Foundation in 1955, and resembling in many respects the scholarship plan of the Ford Motor Company Fund, already discussed. This plan is not primarily intended as a Ford Foundation project, but as a national scholarship program to be supported by corporations throughout the United States and by private donors, if they so desire. Each donor acquires as many "merit scholarships" as his contribution will cover in terms of average costs, with problems of selection and administration standardized and handled by the central administration. The Ford Foundation has made an initial appropriation of \$20 million, supplemented by \$500,000 by the Carnegie Corporation of New York, of which \$10 million (\$1 million a year for ten years) will finance some 175 to 200 four-year scholarships each new year, and \$2.5 million will be earmarked for administrative costs over the period. The remaining \$8 million is a conditional grant, matching dollar for dollar contributions to the National Merit Scholarship Corporation from any other source.

Details have not been finally settled, but in general scholarship winners would be selected upon merit alone, though the amount of the award will vary with need from perhaps \$100 a year for the student with no financial need to a maximum of \$1,500 a year for tuition and cost-of-education supplement, plus a living-expense allowance. Every winner may select his own college. Every accredited college or university so selected—with some adjust-



ments for tax-supported institutions—will receive in behalf of each merit scholar a cost-of-education supplement for its general budget in an amount roughly equal to tuition. It is hoped that this program will bring into colleges a larger proportion of the talented high school graduates and at the same time provide a nondiscriminatory means of supporting higher educational institutions, based on their own ability to attract able students.

### *Limitation by Field*

Grants for study in special fields are better suited to graduate study than to the undergraduate, who often has not made his decision on life work and should not be forced into a premature one. Nevertheless, some foundations and other donors are so keenly interested in particular areas that their undergraduate scholarship aid is offered only for study in particular fields.

The most widely publicized of such plans, the Science Talent Search, does not dictate future course of study but bases its awards on previous interest and achievements in science. This annual contest is financed by the Westinghouse Educational Foundation and administered by Science Clubs of America. The 1955 contest attracted some 16,000 contestants. The 40 finalists receive a five-day trip to Washington. The winner there selected gets a "Grand Scholarship" of \$2,800, the runner-up a \$2,000 scholarship, eight get \$400 scholarships, and thirty others \$100 each. However great the publicity value—to the sponsoring company, to the award winners, and toward emphasizing science in high schools—it must be pointed out that when only \$11,000 is appropriated for the four-year college expenses of 40 persons, the average per college year is less than \$69. Westinghouse's ten annual scholarships for boys in engineering, chemistry, or physics at Carnegie Institute of Technology are on the more liberal basis of \$2,850 each.

The Juilliard Musical Foundation may support music in a variety of ways, but the first "object" mentioned in the creating law is "to defray the expenses of and otherwise aid worthy students of music in securing a complete and adequate musical education, either at appropriate institutions now in existence or here-

after created by this foundation or by others, or from instructors in this country or abroad.”<sup>1</sup> It presently devotes substantially all of its income to the Juilliard School of Music in New York City, where it offers both scholarships and teaching fellowships to students in the School.

The Sears-Roebuck Foundation is not only limited to farm boys, as already mentioned, but to farm boys who will study agriculture; the company reported with satisfaction, on the basis of over 10,000 scholarship awards, that 67 per cent of Sears scholarship winners go through college and more than 87 per cent go into farm or farm-connected work.

The American Bankers Association, commemorating its fiftieth anniversary, established in 1925 the American Bankers Association Foundation for Education in Economics, which makes scholarship loans and promotes economic research. Teaching and the ministry are fields for which scholarship aid in various forms is frequently offered. For example, the Estate of Harry C. Trexler is directed to devote its funds in part to “education and training of worthy and earnest young men, who are residents of Pennsylvania, for the Christian ministry” at named Pennsylvania colleges.<sup>2</sup>

### *Consideration of Need*

In recent years nearly all scholarships, even merit awards based primarily on measured achievement, vary in amount on a needs determination. The amount may rest on broad categories, or on highly detailed inquiries. For example, the Atkinson Charitable Foundation granted \$120,900 to “bursary students,” as it calls them, for the academic year 1954–1955. Students must go to an Ontario university or federated college; first-year students must have achieved a grade of better than 66 per cent in eight honor matriculation subjects, and present “evidence of genuine financial need.” But for entering students the awards are not closely tailored to an estimate of individual need; the amount is uniformly \$400 for a student living away from home, \$200 for a

<sup>1</sup> *An Act to Incorporate Juilliard Musical Foundation*, sec. 2, chap. 89, (New York) Laws of 1920.

<sup>2</sup> *Will of Harry C. Trexler*, Clause XI.

student residing with his family. However, for in-course students the awards vary from \$25 to \$525, depending on the individual need and merit of the applicant as judged by university officials.

The Alfred P. Sloan Foundation, predicting that scholarships "will become one of our major interests in the years ahead," offered some 50 grants in 1954 at a cost of about \$350,000, with stipends varying from \$200 to \$2,000 per year depending upon individual economic need.

An example of a searching needs test is the plan newly adopted for the 1955-1956 college year by the College Scholarship Service, an activity of the College Entrance Examination Board. It makes detailed inquiries into parents' income, amount of insurance they carry, their investments, even the kind and age of the family car; assets of the student and the amount he expects to earn by summer work; and how much friends and relatives may be expected to contribute. Names of two persons familiar with the family's financial position must be supplied, presumably for checking purposes, and on the master form appear the names of all the colleges to which application is made, each of which receives a photographic copy. This form is currently required by 92 "Ivy League" and other well-known private colleges for all scholarship applications.

Such procedures measure the sharp change from the older concept of scholarships as special honors to be awarded to superior students in recognition of past good work and stimulation toward further growth, to a grant-in-aid basis spreading the available dollars as thinly as possible over the maximum number of students, and with investigations as severe as in a poor-relief program. This may be necessary with college-administered funds, in the present situation of the colleges. Foundation-sponsored scholarships will sometimes wish to emphasize quality, without putting the student under pressure for earning and accounting for final dollars.

### *Supervision and Renewal*

Most undergraduate scholarship programs provide support through four years, if the student's record remains satisfactory.

Provisions for supervision and renewal vary widely. Some plans provide for automatic renewal if students remain in the upper half (sometimes quarter) of their class, or simply, to cite one plan, if they "maintain at all times personal and scholastic standards satisfactory to the Ford Motor Company Fund and to their college or university." Scholarships interrupted by military service are usually continued without prejudice at the end of such service, provided the student has not become eligible for a government scholarship.

The Chicago Community Trust, which tailors the amounts of its scholarships closely to the student's need, has its students re-interviewed by the Scholarship and Guidance Association with a fresh look at family finances, summer earnings, academic and extracurricular progress to date, and then sets new amounts in the light of this information. For 1953-1954 "the savings in awards (approximately \$4,500) more than offset the cost (approximately \$1,000)." The Atkinson Charitable Foundation of Toronto, having made first-year grants of standard amount, votes additional funds to the colleges earmarked for in-course students, but leaves determination of individual stipends to the college authorities. In programs involving foreign students, later discussed, a greater degree of guidance may be undertaken by foundation personnel, primarily to aid the student in making necessary adjustments. An annual review of the records of scholarship students by the foundation trustees, or their scholarship committee, is not unusual.

Occasionally four-year scholarships are not envisioned. First-year assistance, to make certain the student will enter college, seemed the important thing to the Sears-Roebuck Foundation. Others concentrate on the final year or years, offering awards only to upper classmen to make certain that work can be completed; but such aid is more frequently in the form of loans than outright scholarships. In one case, the Estate of Henry G. Freeman, Jr., under jurisdiction of the Board of Directors of City Trusts of the City of Philadelphia, provision is made for pro rata cash awards to "such of the students as may graduate from Girard College after September 18, 1948." Amounts were recently in the neighborhood of \$60 for each graduate.



Scholarship programs should probably be kept fluid. Federal scholarship aid for newly enlisted servicemen was terminated in February, 1955. But proposals are before the Congress for extensive federal aid to higher education through a general scholarship program. Business scholarship contributions are growing rapidly. If a high percentage of prospective students secure financial help in any of these ways, the need for foundation general scholarships will decrease, with greater opportunity for specialization.

### STUDENT LOANS

A number of foundations have engaged in student loan programs in place of, or as a supplement to, scholarships. Arguments for this form of aid include the consideration that money goes further, since usually it is returned (sometimes with interest) and can be used again, and the contentions that it avoids pauperizing the student through receipt of a gift, gives the undergraduate useful training in business practice and ethics, and is a reasonable charge against the higher earning power his education will presumably ensure.

Substantial funds are available for such loans, both within the colleges themselves and from a wide variety of outside organizations. The colleges reported to the United States Office of Education a total of \$46.8 million in 1952, with two-thirds of this amount in private institutions. In a two-year period, such funds had increased more than \$3.6 million. While demand is both variable and spotty, many colleges find their loan funds greatly in excess of applications.

Here also conditions have changed. With the lengthening of formal education, particularly for the professions, and the probability of two or three years of military service, students see no early opportunity to pay off such a commitment and many of them prefer to work their way through with the possible aid of a scholarship on a needs basis. Moreover, under present intensive alumni fund drives, even graduates who have paid full tuition have no lack of opportunities to pay back any deficits their education may have entailed. Foundations should not set up further



loan funds without careful study, and should include a provision for other appropriate use of such money if it proves not needed for loans.

Terms under which these loans are available vary greatly. Loans may be limited to girls only, or boys, or for the completion of the last year in school, or graduate education, or only to persons majoring in a given subject, or with "first consideration to Cincinnati residents." The Harry J. Diffenbaugh Fund for Deserving Students limits loans to \$500 a year for "worthy, deserving, and needy" students resident in Missouri and attending one of three named universities in that area. The Knights Templar Educational Foundation places emphasis on loans to juniors and seniors to complete their courses, though state administrators have considerable autonomy for other types of loans. The Ben Selling Scholarship Loan Fund is limited to students attending Oregon colleges or normal schools, or any rabbinical college in the United States. The Charlotte R. Schmidlapp Fund is limited to "aiding young girls in the preparation for womanhood, by bringing their minds and hearts under the influence of education, relieving their bodies from disease, suffering or constraint and assisting them to establish themselves in life."

### *Interest and Repayment*

Practice with respect to interest varies greatly. The Schmidlapp Fund regards its loans merely as a moral obligation, with no time limit set or interest charged. The Whitney Benefits makes loans "without interest except as may be gratuitously offered" to young men and women of Sheridan County, Wyoming, and reports interest infrequent and total losses substantial. But usually interest is charged, if only to make good the total defaults. Rates vary from 1 to 6 per cent, and often interest does not begin until a year after graduation.

The Angier B. Duke Memorial has had a substantial experience with loan funds. From 1926 through June, 1954, it made loans totaling \$724,000 to 2,344 students. Borrowings fluctuated greatly in annual totals, rising from about \$13,000 in the lush late twenties to over \$90,000 in 1932. With World War II they

dropped nearly to zero, but had risen again to \$18,000 in 1951. Applicants file a form including information on scholastic record and financial need; then the loan is granted if it has the further approval of the secretary of the University, dean of the school in which the student is entered, and the manager of the Memorial's student loan office at the University. Until 1939 interest was charged at 6 per cent, and principal was to be paid at the rate of 10 per cent in each of the first two years after graduation and 20 per cent in each of the next four years. For a period beginning in 1946 interest rates were on a sliding scale, rewarding quick repayment of principal. Currently the rate is 1 per cent for school or medical internship years, 3 per cent per annum for the next five years, and 6 per cent thereafter. Says the Memorial:

For the purpose not only of keeping the fund intact and available for aid to future generations through offsetting inevitable losses of principal by earned interest, but also for the moral effect upon the individual borrower who may, through this business transaction early in his experience, learn the value of a strict honoring of his word and note, it was determined at the beginning that interest would be charged and effort would be made continually to improve the repayment record of the fund. Repayments to date have been 80.75% of the total amount loaned.<sup>1</sup>

Experience with loan funds has varied with individuals and the economic cycle. The Duke Memorial record is relatively good; it includes the case of a farmer who arrived in their office twenty-four years after leaving college, took off his right shoe, and extracted \$500 in payment of his long overdue loan. The Harmon Foundation reported its losses at less than 2 per cent for a substantial period; higher, after 1933. The American Bankers Association, which supports a loan fund in its Foundation for Education in Economics, and probably possesses unequaled experience in loan management, reported that, from 1928 to 1934, 355 loans were made totaling \$87,170, of which 5.5 per cent were uncollected; on a slightly smaller volume between 1934 and 1943, only 1.45 per cent were uncollected; and of 58 loans totaling \$14,400 made between 1943 and 1954, none remains uncollected.

<sup>1</sup> *Report*, Angier B. Duke Memorial, New York, 1951, pp. 6-7.

Most loan funds waive both interest and principal payments for periods of military service. Some require the borrower to carry a term life-insurance policy to ensure payment in event of his death. A foundation's entire fund may be used for loans, with the expectation that interest will compensate for losses and perhaps augment principal, or only income from the fund may be used; this greatly reduces the amount available, but protects the principal.

### FELLOWSHIPS

Fellowship programs for specialized graduate study and individual research projects have long been supported by foundations. They represent, indeed, one of the principal channels by which foundations can give freedom and tools to the exceptional individual for his task of discovery, or assist in the training of tomorrow's research personnel.

War and the cold war have cut postgraduate training programs and reduced our manpower for research. Students faced with several additional years of military service before they can begin their productive work think twice before adding graduate studies to four years of college, and even if they wish to continue, they may be called for service before their studies are completed. Dr. Howard A. Meyerhoff, president of the Scientific Manpower Commission, estimated that 3,000 graduate students were drafted in 1953 before completion of their studies. "If this continues," he declared, "we will have a critical shortage of trained scientists and other personnel. This is a dangerous situation, one that can weaken our national economy."

These difficulties give special point to the efforts of foundations to encourage young men and women to continue their training, or to create for those already competent the conditions that give full scope to their talent. Extensive projects exist in both these fields.

#### *Some Examples*

Many programs are directed toward persons of proved ability who request support for a project of their own devising, not neces-

sarily conducted in a university setting. Probably the best known program of this nature is that of the John Simon Guggenheim Memorial Foundation. This Foundation was created in 1925 by Senator and Mrs. Simon Guggenheim as a memorial to

. . . a dearly loved son who was cut off by death on April 26, 1922, just as he had completed his preparation for college. In this great sorrow, there came to Mrs. Guggenheim and myself a desire in some sense to continue the influence of the young life of eager aspiration by establishing a foundation which in his name should, in the words of the charter, "promote the advancement and diffusion of knowledge and understanding, and the appreciation of beauty, by aiding without distinction on account of race, color or creed, scholars, scientists and artists of either sex in the prosecution of their labors. . . ."

We strongly hope that this Foundation will advance human achievement by aiding students to push forward the boundaries of understanding, and will enrich human life by aiding them in the cultivation of beauty and taste. If, at the close of our lives, looking both backward and forward, we can envision an endless succession of scholars, scientists, and artists aided by the John Simon Guggenheim Memorial Foundation, devoting themselves to these purposes, we shall feel that, with the help of our associates, we shall have accomplished the aim which we had set before us, in memory of our son.<sup>1</sup>

This Foundation has current assets of \$34 million at book value. In 1954 it gave 257 fellowship grants, worth more than \$1 million, to recipients in the United States, Canada, and the British Caribbean; and 29 awards in Latin America and the Philippines. Projects range from investigations in nuclear physics to the writing of poetry. The process of selection was thus described to the Select (Cox) Committee by Henry Allen Moe, secretary general of the Foundation:

In the first place anybody, literally anybody, may present an application to us, and whether we have seen him before or ever heard of him before, we give him a fair hearing on the merits of his work.

When he makes application, he is asked to answer a long series of questions which go to five points. First, a record of his personal history. Second, a record of his education. Thirdly, a record of what

<sup>1</sup> Letter of Gift, signed by Simon Guggenheim, March 26, 1925.



he has done. Fourthly, a statement of what he proposes to do with our money. And in the fifth place, he is asked to name a series of reliable persons who know him, are competent to judge his field, to whom we may refer.

All this information having come in to us, we thereupon proceed to make inquiries of all the persons to whom he has referred us.

But if the application looks like anything that we are likely to grant on the merits, we thereupon institute another series of inquiries of people that he does not name, and then all this information is gathered together and presented to the committees of selection, and the committees of selection make their recommendations to the board of trustees.

This is done with great care. Painters submit paintings. We have a jury of painters to advise us on the quality of these paintings. Physicists submit their papers, their published papers and their manuscripts, and they are judged by the top physicists of the country.

And so it goes on through all fields of knowledge and all the arts. And at this time of the year, Mr. Keele, with about 1,200 applications in the office, I never quite know how I am going to get through with this complex process, but somehow we manage every year to do it.<sup>1</sup>

Few other foundations support such broad fellowship programs. But because individual programs are many and often in diverse fields, the collective possibilities are wide. Examples will suggest this variety in both area and arrangements.

The Rockefeller Foundation appropriated in 1953 an additional \$345,000 for three-year support of fellowships administered by the Social Science Research Council to assist "talented and potentially productive graduate and postdoctoral students to get research experience and training beyond that available in their normal academic programs," and to keep young social scientists from being drawn "prematurely into non-research activities or into applied research concerned only with immediately practical results." It also made grants in 1952 and 1953 for a small number of fellowships in creative writing at three colleges, but recognized this as an experiment in a difficult field, and that "possibly the only long-term satisfactory solution will be the development of

<sup>1</sup> *Hearings*, Testimony of Henry Allen Moe, pp. 602-603.



public reader support to the point where a reasonable number of writers of high quality can expect to be able to live by the returns from their writing." In 1953 this Foundation also appointed a total of 142 fellows from 43 different countries; with 179 continuing awards, it was supporting 321 fellows in that year.<sup>1</sup> The complete total of its fellows supported directly and indirectly is now about 10,000.

The John Hay Whitney Foundation granted \$100,000 in 51 "opportunity fellowships" for 1955-1956, limiting its awards for study and training to persons of exceptional promise who have been prevented from developing their abilities because of race, place of residence, or other artificial barriers. Among the winners were Negroes, Puerto Ricans, American Indians, Japanese-Americans, and displaced persons. Russell Sage Foundation supports a limited number of "residencies" offering "selected individuals who have received the doctorate in a behavior science opportunity to gain experience in some field of practice," as a part of the Foundation's program of improving the relationship between research and practice in the social fields; in 1955 it received additional funds from the Ford Foundation to extend this program. The Wenner-Gren Foundation offers fellowships for proposed research that will "contribute to the fund of man's knowledge of himself and his world," but stresses also the value of training the individual:

Our first concern is with the success of their research undertaken with Foundation support, yet, perhaps, much more important for the future is the added gain in experience, knowledge, and leadership that accrues to the individual and to the body of scholars, devotees of that branch of science known as anthropology, with whom the Foundation has become affiliated.<sup>2</sup>

The Fund for Adult Education announced in 1954 aid to 52 "educators, librarians, churchmen and civic and agricultural leaders [to] help meet the great need for leadership in liberal adult education."

<sup>1</sup> *Annual Report, 1953*, pp. 266, 282, 331-332.

<sup>2</sup> *Report . . . for Year Ending January 31, 1954*. New York, p. 1.

*Aid to Teachers*

Fellowships for teachers were especially numerous among recent foundation grants. The General Education Board voted slightly more than \$3 million in 1954 to the Council of Southern Universities as its final major grant, crowning more than three decades of fellowship programs. The earliest grants promoted education at the primary and secondary levels with awards chiefly to high school principals and teachers. From the mid-1930's aid to teachers at the college level was emphasized. The latest program is aimed at "the advancement of teaching and research in colleges and universities in the southern area," and its awards will go primarily to younger college teachers in 14 southern states.

The Fund for the Advancement of Education has for some years offered fellowships to public secondary school teachers to enable the recipient "to devote a full academic year away from the classroom to activities designed to extend his own liberal education and to improve his teaching ability." For 1955-1956 162 such fellowships were granted, at a program cost approximating \$840,000. The same Fund has also granted about \$800,000 for some 135 faculty fellowships "to strengthen college teaching in the liberal arts and to stimulate widespread consideration of the purposes, the means, and the ends of liberal education." These fellowships are for one year "devoted to study, observation, or experiment [that will] vitalize and enrich the intellectual lives of the recipients," are limited to teachers between the ages of 30 and 45, and approximate in amount the salary of the recipient plus certain expenses essential to his plan of study.

The John and Mary R. Markle Foundation, believing that in the field of medicine promising young teachers and investigators are too often diverted by financial considerations into private practice or industrial laboratories, has set up a carefully considered program for about a score of Markle Scholars each year. Such Scholars must be planning a career in academic medicine; the grant amounts to \$30,000, spread over five years.

At the other end of the age spectrum, the John Hay Whitney Foundation, aided by the New York Foundation, is currently

experimenting with a program whereby a limited number of retired teachers of outstanding ability are selected annually for awards provided jointly by the foundations and small liberal arts colleges chosen to participate. The visiting professors offer courses designed to enrich the curriculum during their year's residence; they consult with students and faculty and often meet the college community through public lectures. In addition, the Foundation maintains a registry of professors who wish and are well qualified to continue teaching. Institutions interested in employing such professors are invited to write to the Foundation for suggestions in the field or fields in which they have a position available.

### *International Fellowships*

The international exchange of scholars and others is regarded as one of the most promising roads to better understanding among the world's peoples. Many foundations participate in such efforts, and a few of them devote to it a large part of their funds. Probably the earliest example of the latter is the American-Scandinavian Foundation, which since its founding in 1911 has advanced intellectual relationships between Americans and Scandinavians, through fellowships for study abroad and through an extensive trainee program operating on both sides of the Atlantic.

The China Medical Board of New York, presently unable to conduct its usual program in China proper, has devoted substantial funds to visiting professorships and fellowships, with fellowship allocations made to medical and nursing schools chiefly in Japan, Korea, Hong Kong, the Philippines, Taiwan (Formosa), Thailand, Malaya, and Indonesia.

The Reid Foundation offers to practicing newspaper men and women about six fellowships a year worth \$5,000 each for study abroad. In one recent year subjects selected for study were Japan's new government; European culture; ways of life of people of Southeast Asia; labor conditions in France, Italy, and Western Germany, and Communist tactics; British and European court methods; and African people and their problems.

The Ford Foundation has announced for 1956-1957 a continuation of its program of fellowships for foreign area training to increase the number of young American men and women who understand and can interpret the cultures, histories, and current problems of Africa, Asia and the Near East, and the Soviet and East European areas. A variety of other recent Ford programs involved exchange of persons, including financing a National 4-H Club Foundation program which brought groups of young farmers from 40 foreign countries to live and work for three months on farms in the United States while young American farmers spent a similar period on farms in the same countries; a grant to the University of Illinois under which, with cooperation of the Turkish Ministry of Education, ten Turkish secondary school teachers spent a year in the United States studying educational methods; and a number of special awards. The 1953 grants in support of actual exchange programs totaled \$860,560, while an additional \$484,775 was contributed for administrative support of organizations operating in the exchange field.

The extensive contributions of The Rockefeller Foundation to this international migration of scholars and other leaders has already been suggested. The Carnegie Corporation of New York, which also finances programs of this nature in the British Dominions and Colonies, cautions against "exporting brains":

We tend, Mr. Forand, not to bring students, and this is for a reason which grows out of experience.

If a foundation is dealing with what we might call loosely a less-advantaged area than the United States, one in which standards of living are not as high, academic salaries are not as high, you run a real hazard in bringing over the very young people, because you tend, as we say, to export brains. When you bring these young people over here, they are much attracted by this country. If they are very able, they find job opportunities superior to those at home, and the net result is that they don't go back.

We feel an obligation to watch that very closely; so, we tend to bring mature people from the universities, occasionally from business—by the way, from Government occasionally—from research institutions, mature people who we think are on the threshold of much greater responsibilities.<sup>1</sup>

<sup>1</sup> *Hearings Before the Select (Cox) Committee*, pp. 356-357.



The Commonwealth Fund has had a long experience with foreign fellowships, chiefly in programs of advanced study, research, and travel in the United States for graduates of British universities, British journalists, teachers of American history and affairs at British universities, and civil servants from Great Britain and the Commonwealth nations. These are arranged by a British committee of award under fixed annual quotas. Out of its experience the Fund offers this advice on foreign fellowship duration:

The weight of observation is heavily in favor of a tenure of not less than one full year, including two or three months' travel in the United States, which is a fixed condition of Fund Fellowships. It is the rare visitor from abroad who, in less than a year, is able to free himself sufficiently from the preoccupying influences of his own cultural patterns and individual interests to allow objective observations of American institutions and people. Especially for the younger graduate students, but also for many others, more than one year is indicated, and flexibility in the term is therefore desirable to fit personal and professional requirements. In recent adjustments of fellowship conditions for graduate students, the Fund is favoring a tenure of twelve to twenty-one months; for journalists and civil servants, of nine to fifteen months.<sup>1</sup>

Extensive governmental funds are available for such intercultural exchanges. The International Educational Exchange Service of the Department of State spent \$23 million during the 1953-1954 academic year primarily to exchange 7,121 persons with 70 countries, to provide grants to 384 foreign students to attend American sponsored schools in Europe, the Near and Far East, and to assist 605 qualified Chinese and Korean students stranded in this country in reaching their educational objectives. It is estimated that an additional \$8 million was spent by private and other non-U.S. government groups in the form of scholarships, stipends, and other kinds of support to persons receiving partial government grants. Some foundations shape their fellowship programs to the unmet needs of such scholars.

A similar form of cooperation, but this time between foundations, is reported by the W. K. Kellogg Foundation. The Nuffield

<sup>1</sup> *Annual Report*, 1953, pp. 19-20.



Foundation in Great Britain has had exchange scholarship programs with many countries. But because of strict currency exchange limitations, it can provide for only a limited number of agricultural scholars in the United States and Canada. In 1952 the Nuffield and Kellogg foundations began a cooperative arrangement under which the former selects the scholars and provides their transportation to and from the United States, while the Kellogg Foundation assumes responsibility for their travel and maintenance in this country, and may assist in their supervision.

In administering programs involving exchange of persons, foundations encounter complicated problems, such as security clearance, passports, foreign exchange, travel arrangements, proper reception on arrival, language difficulties, cultural differences, the need to arrange proper introductions to American ways and persons, and the like. Assistance of various sorts can be obtained from a number of organizations. The Institute of International Education has long experience in handling student problems and maintains selection committees in many countries; several foundations have contracts with it for administration of exchange programs. Other organizations whose exchange programs are either supported in part by foundations or are in a position to offer advice or aid of various sorts include the American Friends Service Committee, Experiment in International Living, the National Association of Foreign Student Advisers, the Committee on Friendly Relations Among Foreign Students, and the International House Association.

In addition to administrative problems involved in exchanges of persons, foundations need to look closely and realistically at the goals of such programs. The sponsor has usually in mind broad purposes such as the promotion of international understanding and good will, or the advancement of knowledge throughout the world, or protection for the United States through developing friends and supporters for this country and the democratic way of life. The exchangee is interested primarily in his own academic or professional development. Recent studies have been sponsored by the International Educational Exchange Service of

the Department of State and a cross-cultural education committee of the Social Science Research Council. Preliminary findings suggest that results do not correspond closely with the intent of some of the programs. Concerning America, the students come up with "a bewildering variety of pictures . . ." but almost all of them ascribe to us a few national traits, "friendliness, inventiveness, industriousness, materialism, immaturity."<sup>1</sup>

Moreover, there are dangers for the student himself. In addition to the possibility of "exporting brains," danger exists that too long a stay may make him unable to adjust again to his own culture on his return, or that highly specialized training may prove useless because of lack of equipment or cultural blocks in his own country. A committee set up by the Institute of International Education, charged with investigating the goals of student exchange, offers these warnings:

International interchange programs are not a psychological wonder drug which, if taken in correct doses, will cure all the grave social and political ills of the world. . . . The broad social and political goals of exchange programs—creating international understanding, developing favorable attitudes of nations toward the United States—can be attained but they must be recognized as long-range and indirect. . . . The basic result, and the one indispensable achievement for any exchange program, is the satisfaction of the needs and desires of the individual exchangee.<sup>2</sup>

### *National Science Foundation Fellowships*

The National Science Foundation has been awarding annually since 1952 some 700 graduate fellowships for predoctoral and postdoctoral study in the biological, engineering, mathematical, medical, physical, and related sciences. The program for 1955-1956 provides for some 700 graduate and 130 postdoctoral fellowships. Selection is on the basis of ability as determined by examinations (for predoctoral candidates), academic records, and appraisals by the National Research Council. Candidates must be citizens of the United States, but they may study in any accredited

<sup>1</sup> Lambert, Richard D., in "Foreword" to an issue of the *Annals of the American Academy of Political and Social Science* devoted to this topic, September, 1954, p. vii.

<sup>2</sup> *The Goals of Student Exchange*. Committee on Educational Exchange Policy, New York, 1955, pp. 7, 15, 9.

ited nonprofit institution of higher learning in the United States, or any similar institution abroad approved by the National Science Foundation. The Foundation pays tuition, certain fees and travel costs, a dependency allowance of \$350 to married fellows plus \$350 for each dependent child, and the following stipends: for a graduate fellowship, \$1,400, \$1,600, and \$1,800 for the first year, an intermediate year, and the terminal year respectively; for a postdoctoral fellowship, \$3,400 annually.

### *The Tax Situation*

Foundations are concerned with the question of income tax on fellowship grants. The effective value of a fellowship is its amount after taxes, if a tax is levied, and practice in this respect has shifted radically in recent years. In 1951 in a public statement the Commissioner of Internal Revenue declared that grants by foundations and other charitable organizations for fellowships were not gifts, but were taxable as income to recipients, being pay for services rendered. This was challenged in 1952 by a college professor named Stone who had received a \$3,000 grant from the John Simon Guggenheim Memorial Foundation. In November, 1954, the Tax Court of the United States ruled by a majority decision that this grant was a gift excludable from taxed income under Section 22(b)(3) of the 1939 Internal Revenue Code. The Stone decision has relevance to all such grants from 1939 until adoption of the Internal Revenue Code of 1954, and even under the new Code if the grant is as clearly a gift, with "the controlling factor . . . the intent of the payor."<sup>1</sup>

Provisions of the Internal Revenue Code of 1954 are relatively liberal.<sup>2</sup> Scholarships at an educational institution are not to be reported as part of gross income. Grants for fellowships are similarly excluded, including the value of contributed services and accommodations and special expenses, but with certain limitations. If the recipient is a candidate for a degree, the exclusion shall not apply to "that portion of any amount received which

<sup>1</sup> *George Winchester Stone, Jr. and Hellen Dean Stone v. Commissioner of Internal Revenue*, 23 T.C., No. 37, 1954.

<sup>2</sup> Sec. 117, Scholarships and Fellowship Grants. See Appendix B, pp. 390-391.

represents payment for teaching, research, or other services in the nature of part-time employment” unless such services are required of all candidates for that particular degree. For the fellow who is not a degree candidate, the grant is excluded from gross income only if given by a tax-exempt organization as described in Section 501(c)(3)— which includes foundations—or a governmental agency, and to a maximum amount “equal to \$300 times the number of months for which the recipient received amounts under the scholarship or fellowship grant during such taxable year,” and with a top limit of thirty-six months, whether or not consecutive.

Administrative rulings are not yet available, but for the present it would seem advisable for foundations to make grants for stated months approximating the permitted exemption. A grant for \$1,000 “for the year 1956” might be ruled to have exhausted twelve months, or one-third of the total exemption of the recipient for his lifetime, while the same grant for “the months of January, April, July, and October” would exhaust only four of the permitted thirty-six months.

It is probable that Treasury decisions or court rulings will be required on certain further questions. Corporations or their foundations, for example, often grant fellowships for postgraduate research in fields related to the operations of the donor company. Where such research approximates “contract research” with sole or first use of the findings assigned to the contributing corporation, we think the income of the researcher, however paid, is taxable wages. At the other extreme, if the project is pure research and the discoveries, if any, are added to the storehouse of knowledge for general use, then the fellowship stipend is presumably a gift and exempt under the limitations indicated. Between these extremes is a gray area where decision is more doubtful, as for example a project which in fact would be of primary use only to the donating foundation’s company even though it is not restricted, or a project sponsored by a foundation that reserves right of publication of results.



## Scientific Research

EARLIER CHAPTERS have indicated much individuality among foundations and a bewildering variety in the appeals they receive. The activities they support are almost equally varied, and comprehensive statistics do not exist. Even if all foundations reported fully, which is far from the fact, grants could often be assigned to several different categories, depending upon the purpose of the grantor or possibly the bias of the tabulator. For instance, \$50,000 appropriated for a laboratory in a Japanese medical school might be classified under health, or medical research, or education, or international relations.

### *A Changing Picture*

Moreover, many foundations pass through growth stages during which their programs change and mature. At the outset, particularly if the donor is living or by his will has set up a board of trustees composed of relatives and close associates, the foundation is likely to be chiefly an extension of the donor's private giving. Its grants go to local charitable agencies, including churches, schools, hospitals, welfare and health organizations. Emphasis is on relief, help for children, the sick, the blind, the unfortunate, the aged—any cause that appeals deeply to human sympathy. Choices may depend on personal acquaintanceships and the persuasiveness of the appeal.

After longer experience, boards may conclude that causes with strong heart appeal can best secure the large support they often



need from the general public, while their own small funds are better devoted to the less emotional but more rewarding fields of cure, prevention, and basic research. If, meanwhile, funds have increased, the foundation has probably employed at least an executive secretary, and a beginning is made toward professional staff. With an enlarged program, the handling of appeals for grants is regularized, with suitable screening by members of the professional staff or experts consulted by them. The staff, or the trustees, may also themselves initiate or encourage proposals in fields where needs are seen. The foundation may have joined the small group which in Chapter 1 we have called "general research foundations."

Scientific research is still a small part of the activities of foundations as a whole, but it does characterize the programs of many of the leaders. Moreover, it is the only field for which quantitative data have been gathered recently. Since such research cuts across many of the subject fields, it seems desirable to present these data as a unit, before turning to the subject areas as such.

### *The Scientific Research Survey*

The National Science Foundation has undertaken the task of estimating total expenditures for scientific research and development of all agencies in the United States for 1953. It requested Russell Sage Foundation to collect and analyze the data on foundation contributions in this area. This the Foundation agreed to do, believing that it could conduct that inquiry more adequately than an agency not acquainted with the complications of the field, and with the understanding that the information collected could also be used in this study. The survey was structured to conform to the broader project of the National Science Foundation and was conducted in close consultation with Dr. Richard G. Axt and other officers of that agency. Data were collected in the fall of 1954 for calendar year 1953 or a fiscal year ending between July 1, 1953 and June 30, 1954.<sup>1</sup>

<sup>1</sup> The record that follows is separately published, with some additional data, in Andrews, F. Emerson, *Scientific Research Expenditures by the Larger Private Foundations*. National Science Foundation, Government Printing Office, Washington, 1956.

The definition of research, and the division of science into various fields, are those supplied by the National Science Foundation and employed in its total project.

### DEFINITIONS

*Research* is systematic, intensive study directed toward fuller knowledge of the subject studied. Research may be either:

*Basic research* which is that type of research directed toward increase of knowledge in science. It is research where the primary aim of the investigator is a fuller knowledge or understanding of the subject under study, rather than a practical application thereof.

*Applied research* which is that type of research which is directed toward practical applications of science.

*Development* is the systematic use of scientific knowledge directed toward the production of useful materials, devices, systems, methods, or processes, exclusive of design and production engineering.

### FIELDS OF SCIENCE

*Physical sciences.* Physical sciences include:

- (a) *physical sciences proper*, i.e., those sciences concerned primarily with the understanding of the natural phenomena associated with nonliving things;
- (b) *mathematical sciences*, i.e., those sciences which employ logical reasoning with the aid of symbols and which are concerned with the development of methods of operations employing such symbols. Specifically, the mathematical sciences include: mathematics, pure and applied; astronomy; theoretical mechanics; statistical methods; and computer research, exclusive of engineering;
- (c) *engineering sciences*, i.e., those sciences which are concerned with studies directed toward making specific scientific principles usable in engineering practice.

*Life sciences.* The life sciences include:

- (a) *medical sciences*, i.e., those sciences which, apart from the clinical aspects of professional medicine, are concerned primarily with the utilization of scientific principles in understanding human diseases and in maintaining and improving human health;

- (b) the *agricultural sciences*, i.e., those sciences directed primarily toward understanding and improving agricultural productivity such as agronomy, animal husbandry, forestry, horticulture, range management, soil culture, etc.;
- (c) *biological sciences*, all sciences other than those listed in *a* and *b* above which deal with life processes. In addition to work done in disciplines traditionally considered as being biological sciences, there should also be included work done in other disciplines or subjects where the work is undertaken primarily for the purpose of understanding life processes.

*Social sciences.* Social sciences are those sciences directed toward an understanding of the behavior of individuals as members of a group. These include such sciences as cultural anthropology, economics, history, political science, social psychology, sociology, etc. In addition to work done in disciplines or subjects traditionally considered as being social sciences, there should also be included work done in other disciplines or subjects where the work is undertaken primarily for the purpose of understanding group behavior.

Foundations were asked to fill out three schedules. Schedule 1 asks for a general picture of the foundation, its income and expenditures, for 1953 (the base year for the broad survey), for 1946, and for 1939, the earlier years being selected so as to include both prewar and postwar checking points, with the interval held constant. Primarily, Schedule 1 relates expenditures for scientific research and development to the total scale of operation of the given foundation.

Schedule 2 apportions the total figure for scientific expenditure among the various sciences as defined above, with further separation into *basic* research and *applied and developmental*. Moreover, for the key year 1953 respondents were asked to indicate the recipients of their moneys by broad categories:

- a. Reporting foundation (research by its own staff)
- b. Colleges, universities, professional schools
- c. Health agencies (including hospitals, unless affiliated with medical schools and therefore under b)
- d. Other agencies
- e. Individuals (including research fellowships to graduate and postgraduate students, but not scholarships for undergraduates)

For 1946 and 1939 information on recipients was limited to sums spent in direct operations versus grants to other agencies.

A final schedule analyzes Item *e* in Schedule 2 (contributions to individuals) by the affiliation of such individual recipients.

### *The Universe Studied*

The agreed universe was all foundations with assets of \$10 million or more; it was believed, and later confirmed by sampling, that while smaller foundations possessed collectively substantial additional assets, few of them supported scientific research; to extend the inquiry to several thousand additional organizations would have delayed the findings without materially adding to the results.

The original list of 87 organizations believed to belong in this group of larger foundations finally narrowed to 77. Several had not yet come into their assets, or had not commenced their activities by base year 1953; several lacked the large corpus rumor had assigned to them, or their assets were nearly or wholly counterbalanced by liabilities, making them in fact small foundations with no proper place in this study. On the other hand, retained in the group were a few which fell narrowly below the \$10 million limit and several others with reported ledger value far below this limit but with income from assets suggesting that an adequate market value, if such could have been obtained, would have placed them in the group. A special case was made of the General Education Board, in process of dissolution in 1953, in view of its important record in the earlier years and its substantial expenditures in 1953 from capital and other resources.

The 77 foundations constituting this universe are identical with those listed in Table 14.<sup>1</sup> The 77 foundations had assets totaling \$3 billion and a 1953 income from assets of \$166 million. One other characteristic of this universe requires special notice. Even in this group of "larger" foundations, several are in a size class by themselves. The three top foundations, the Ford Foundation, Rockefeller Foundation, and Carnegie Corporation of New York, have combined assets exceeding \$1 billion, representing 34 per cent of the assets of all 77; and income of \$73.4 million, or more

<sup>1</sup> See pp. 108-109.

than 44 per cent of the income of the group. In examining group tabulations, therefore, it becomes necessary to guard against interpreting as a group trend a change that may have resulted from a sharp temporary shift made perhaps by a single one of these largest foundations. In the tables that follow any unusual such factors are noted.

Cooperation from most of the foundations was excellent; a final 21 could not, or would not, fill out the schedules, but nearly all of these were of the smaller, family type, with little or no scientific research in their programs. Since we could not eliminate them from our agreed universe without biasing our sample, we obtained data from Form 990-A and other sources; errors from inadequacies of some of these reports can scarcely be statistically important.

More serious questions of reliability lie in difficulties of interpretation. In many cases the distinction between medical and biological research could not be satisfactorily interpreted in terms of given grants. Because of organizational setup, one large foundation could not separate physical sciences from biological sciences, and included both under the latter. Basic research versus applied research turned sometimes upon the motives of the grantor rather than the nature of the project.

### *General Support of Research*

The 77 foundations, it has been noted, had a combined income from assets of \$166 million. They spent<sup>1</sup> in 1953 slightly less, somewhat under \$164 million. Table 19 and Chart 4 present the general picture of this expenditure. Ten per cent was allotted to "administration and miscellaneous," which includes for some foundations moneys spent to maintain properties or other income-producing assets as well as other items not in "overhead" in its usual sense. Two foundations, representing 3 per cent of expenditures, did not break down their total expenditures, though in one case it was known that no scientific research was supported. The remaining 87 per cent, or \$142 million, was spent on program.

<sup>1</sup> Actual expenditures; grants or appropriations voted but not disbursed are not included.



TABLE 19. SCIENTIFIC RESEARCH EXPENDITURES OF 77 LARGER FOUNDATIONS IN 1953<sup>a</sup>*Dollar figures in thousands*

Item	Foundations reporting item	Amount	Per cent of total expenditures
Total expenditures	77	\$163,681	100.0
Scientific research	43	25,906	15.8
Other grants	71	116,469	71.2
Administration and miscellaneous	75	16,446	10.0
Unitemized	2	4,860	3.0

<sup>a</sup> Calendar year, or fiscal year ending before July 1, 1954; in 15 cases for earlier years as noted in Table 14.

SOURCE: Russell Sage Foundation survey for National Science Foundation.

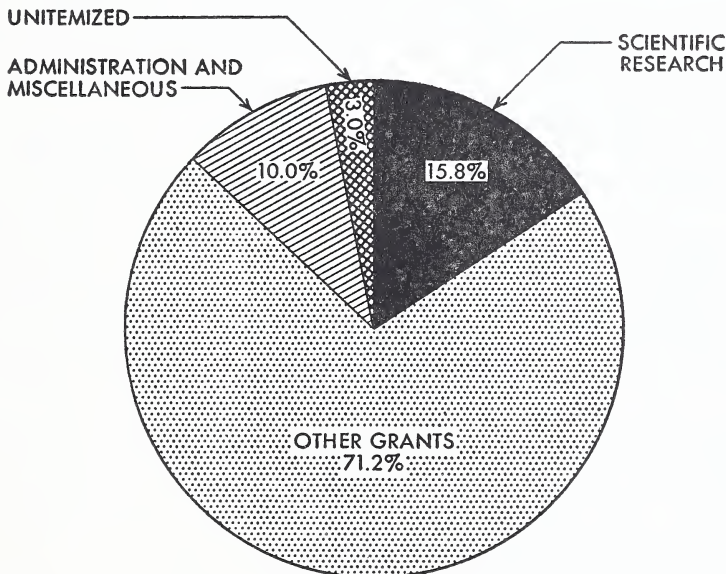


CHART 4. DISTRIBUTION OF EXPENDITURES OF 77 LARGER FOUNDATIONS IN 1953

Of this \$142 million for program, only \$26 million was reported as scientific research and development—about 16 per cent of the total expenditures of these foundations. Final reports of the National Science Foundation project are not yet available, but preliminary figures suggest that the national total for scientific research in 1953 will be in the neighborhood of \$5 billion, of

which more than \$2 billion was spent by government agencies. In this framework the contribution from larger foundations of \$26 million is almost negligible in terms of percentage; but in terms of programs for human welfare it has sometimes been crucial. It must also be remembered that a large part of the national figure is "gadget" and war-related research, with many of the findings presently restricted.

Moreover, as The Rockefeller Foundation pointed out to the Select (Cox) Committee:

. . . The very fact that government is taking an increasing interest in scientific research, both "pure" and "applied," makes it all the more important to sustain vigorous private efforts in such fields. Undue dependence upon government or undue interference by government could easily become stultifying in the world of vigorous intellectual activity at the outermost frontiers of human knowledge. The work of a foundation lies largely in the pioneering or demonstration field; its capital is venture capital. Its money can be used in a process of trial and error in which government funds might not wisely go. With public funds there is less willingness to assume risks and there are sharp penalties if the promise should prove a failure and the road comes to a dead end, this despite the fact that in some fields of research a "failure" can be as important as "success." It is easier for foundations to confess "failure" and withdraw from an unpromising effort than for government to do so in an atmosphere of political controversy. Further, public opinion may be impatient for quick results from tax dollars and may insist upon the application of public funds to immediate utilitarian ends. Where foundation funds are available to private institutions, originality, spontaneity of thought, variation, independence, conviction and tenacity have had a rich soil in which to flourish. Philanthropy can also provide stability and long-range support in a manner difficult to obtain through annual appropriations.<sup>1</sup>

Of 75 foundations that itemized their expenditures, scientific research entered the programs of 43, or slightly more than half. In four cases all program expenditures were in the research field, but this is obviously the exception and not the pattern even among the largest foundations.

Table 20 offers some evidence on changes of emphasis in scientific research between 1939 and 1953. For this purpose the sample

<sup>1</sup> The Rockefeller Foundation, *Answers to Questionnaire*, pp. 140-141.

was reduced to the 37 foundations which were in existence, and able to furnish reports for, all of the survey years.

In 1939 the 37 foundations reporting spent \$10 million for scientific research, representing about 20.5 per cent of their total expenditures. The medical and biological sciences together accounted for just half of this expenditure; the social sciences for two-fifths; the physical sciences less than one-tenth. Agricultural science in all years has been an almost negligible item.

TABLE 20. SCIENTIFIC RESEARCH EXPENDITURES IN 1939, 1946, AND 1953 FOR 37 FOUNDATIONS REPORTING IN ALL THREE YEARS, BY TYPE OF RESEARCH

*Dollar figures in thousands*

Item	1939		1946		1953	
	Amount	Per cent	Amount	Per cent	Amount	Per cent
Total expenditures	\$48,720	100.0	\$44,454	100.0	\$117,511	100.0
All scientific research	10,022	20.5	10,893	24.5	23,225	19.8
Life sciences						
Medical	2,877	5.9	4,027	9.1	6,572	5.6
Agricultural	64	0.1	269	0.6	688	0.6
Biological	2,143	4.4	1,435	3.2	3,427	2.9
Physical sciences	881	1.8	2,462	5.5	1,874	1.6
Social sciences	4,057	8.3	2,700	6.1	10,664	9.1

SOURCE: Russell Sage Foundation survey for National Science Foundation.

In 1946 total expenditures of the reporting group had fallen off, probably because some foundations were still suffering from war dislocations and not able in that year to finance or conduct full programs. Scientific research expenditures had fractionally increased to nearly \$11 million, and now were 24.5 per cent of the total. Medical and biological sciences together were again almost exactly half the research expenditure. But this year the social sciences dropped to one-quarter of research expenditure, while the physical sciences (possibly also an after-effect of the war) almost trebled in dollar expenditures, closely approaching the social sciences.

In 1953 research expenditures were more than double either of the previous years, exceeding \$23 million. But meanwhile total

expenditures of these foundations had about trebled, so that percentage-wise research expenditures were at the lowest point in the record, below 20 per cent of total expenditures. The medical and biological sciences, though materially increasing in dollar amounts, lost ground in relative position among the sciences. The physical sciences dropped even in dollar amount below the 1946 record, and stood at 1.6 per cent of total expenditures. The social sciences climbed sharply after the 1946 recession, slightly exceeding in 1953 the combined expenditures for medical and biological sciences.

At first glance the table suggests that between 1939 and 1953, instead of the expected increased emphasis on scientific research among foundations, there was actually a slight decrease in proportional spending for this purpose. An additional factor must be weighed: the gigantic Ford Foundation is included in this tabulation. In 1939 and 1946 it was still functioning as a family foundation; its expenditures were minor, its scientific research was nil. But by 1953 it had come into its full assets and begun its enlarged program, spending nearly \$47 million in that year. Although it devoted a substantial sum to scientific research, somewhat more than \$4.5 million,<sup>1</sup> this was at a rate of less than 10 per cent of expenditures; because of the overwhelming size of its operations, this reduced markedly the general average. It is possible that the Ford Foundation proportion will change as its program develops. In any event, if Table 20 were reconstructed without the Ford Foundation, the remaining 36 foundations would show a research investment of 20.9 per cent of total expenditures in 1939, rising to 26.4 per cent in 1953. These figures probably more nearly represent the trend among the older foundations.

Further examination of individual schedules reveals that of the 37 foundations reporting for the full period, eight made no contributions toward scientific research in any of the three sampled years. The Rockefeller Foundation contribution was the highest in each of the years, amounting to almost half the total reported

<sup>1</sup> The Ford contribution is larger than here reported because substantial sums paid to such independent organizations as the Fund for the Advancement of Education and the Fund for the Republic were eventually channeled into scientific research.



for scientific research in 1939, about a third in 1946, slightly more than a quarter in 1953. But several smaller foundations devoted a higher percentage of their funds to this area, one reporting 95 per cent of total expenditures for applied medical science.

### *Basic and Applied Research*

Much of the tremendous expansion in research in the United States in the past decade has been in applied and developmental experimentation rather than basic research, the latter being defined for this survey as "research directed toward increase of knowledge in science. It is research where the primary aim of the investigator is a fuller knowledge or understanding of the subject under study, rather than a practical application thereof." It was desired to discover whether foundations, free from the self-interests of many other spenders of research funds, were concentrating on contributions toward building up the storehouse of fundamental knowledge.

In spite of careful definition of kinds of research and evident care on the part of most responding foundations, it is doubtful whether the collected data have high reliability. The distinction between basic and applied research may be chiefly subjective, with the grantor of funds intending to help a research worker add to the storehouse of knowledge, but the worker concentrating on a particular practical objective. Or the shift may be in the opposite direction. An eager research worker, wishing to make basic explorations in a field that excites him, may feel that he has to wheedle the necessary funds from a shortsighted foundation by presenting a project with a specific and practical objective. These reservations need to be remembered in considering Table 21 and Chart 5.

Of 77 reporting foundations, 43 supported research in at least one of the sampled years. The dollar value of both basic and applied research increased through this period, but large shifts in emphasis appear in the record. In 1953 foundations reported nearly two-thirds of their research funds devoted to basic research; but in 1939 it had been 96 per cent, and the same persons filled out the schedules for both periods. Out of greatly increased



TABLE 21. SUPPORT OF BASIC VERSUS APPLIED AND DEVELOPMENTAL RESEARCH BY 77 LARGER FOUNDATIONS IN 1939, 1946, AND 1953

*Dollar figures in thousands*

Item	1939				1946				1953			
	Basic research	Per cent	Applied research	Per cent	Basic research	Per cent	Applied research	Per cent	Basic research	Per cent	Applied research	Per cent
All scientific research	\$9,616	96	\$406	4	\$8,415	75	\$2,807	25	\$16,755	65	\$9,151	35
Life sciences												
Medical	2,833	98	46	2	2,623	65	1,415	35	3,806	49	3,892	51
Agricultural	63	100	0	0	269	95	15	5	684	65	363	35
Biological	2,144	100	0	0	1,661	98	34	2	3,505	94	225	6
Physical sciences	880	100	0	0	1,516	62	948	38	1,878	78	544	22
Social sciences	3,696	91	360	9	2,346	86	395	14	6,882	63	4,127	37

SOURCE: Russell Sage Foundation survey for National Science Foundation.

resources, foundations were contributing for basic research in 1953 more dollars but less purchasing power than in 1939.<sup>1</sup> Except in biological research, where in all years nearly the whole contribution was classified as basic, all branches of science showed a trend toward applied research and development. The most notable change was in the medical sciences, where in 1939

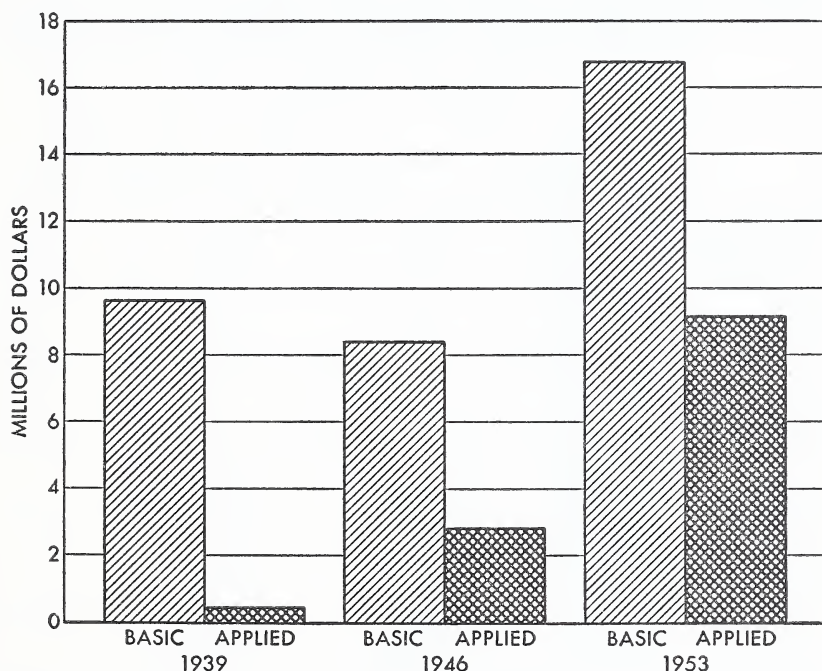


CHART 5. SUPPORT OF BASIC VERSUS APPLIED AND DEVELOPMENTAL RESEARCH BY 77 LARGER FOUNDATIONS IN 1939, 1946, AND 1953

foundations classified 98 per cent of their research expenditures as basic, while in 1953 they classified above half as applied research. A closer examination of the schedules suggests that many of the latter appropriations are currently going for cancer and other diseases.

<sup>1</sup> *Consumers' Price Index*, revised series (1947-1949 = 100): 1939 = 59.4, 1946 = 83.4, 1953 = 114.4.

*The Fields Supported*

Tables 20 and 21 have indicated in general the division of foundation expenditures among the branches of science particularized in the schedules. More comment on this subject is needed, and it should also be noted that foundations support such research in two principal ways, by making grants or by conducting

TABLE 22. SCIENTIFIC RESEARCH EXPENDITURES OF 77 LARGER FOUNDATIONS BY FIELDS OF SCIENCE, DIVIDED INTO STAFF RESEARCH AND GRANTS, IN 1939, 1946, AND 1953

*Dollar figures in thousands*

Item	1939		1946		1953	
	Showing item	Amount	Showing item	Amount	Showing item	Amount
All scientific research	23	\$10,022	30	\$11,222	43	\$25,906
Staff research	7	2,182	6	2,061	11	3,522
Grants	22	7,840	29	9,161	42	22,384
Medical sciences	16	2,877	17	4,038	33	7,698
Staff research	2	180	2	282	5	749
Grants	16	2,697	17	3,756	31	6,949
Agricultural sciences	3	64	4	284	10	1,047
Staff research	0	0	1	186	2	378
Grants	3	64	3	98	9	669
Biological sciences	7	2,143	10	1,695	13	3,730
Staff research	1	438	1	307	2	685
Grants	7	1,705	10	1,388	13	3,045
Physical sciences	5	881	7	2,464	11	2,422
Staff research	1	673	1	581	1	736
Grants	5	208	6	1,883	10	1,686
Social sciences	16	4,057	16	2,741	22	11,009
Staff research	6	891	5	705	6	974
Grants	15	3,166	14	2,036	21	10,035

NOTE: This table shows data for all the foundations reporting for any year; some were not in existence, or were unable to supply reports, for 1939 or 1946.

SOURCE: Russell Sage Foundation survey for National Science Foundation.

the operations with their own staff.<sup>1</sup> Most foundations are of the grant-making type. A few, of which Russell Sage Foundation and the Twentieth Century Fund are examples, are of the operating type. Several, of which The Rockefeller Foundation is a principal example, combine both methods.

<sup>1</sup> See Chapter 6.

Table 22 and Chart 6 indicate for the three sampled years the flow of foundation funds into the various fields of science. The table also shows what portions were devoted to staff research and what portions were disbursed to outside agencies and persons.

Staff research is quickly disposed of. In both number of foundations showing this item and in amount spent, it was not large. Exceptions were in the physical sciences, where the Carnegie Institution of Washington was the sole and large contributor to

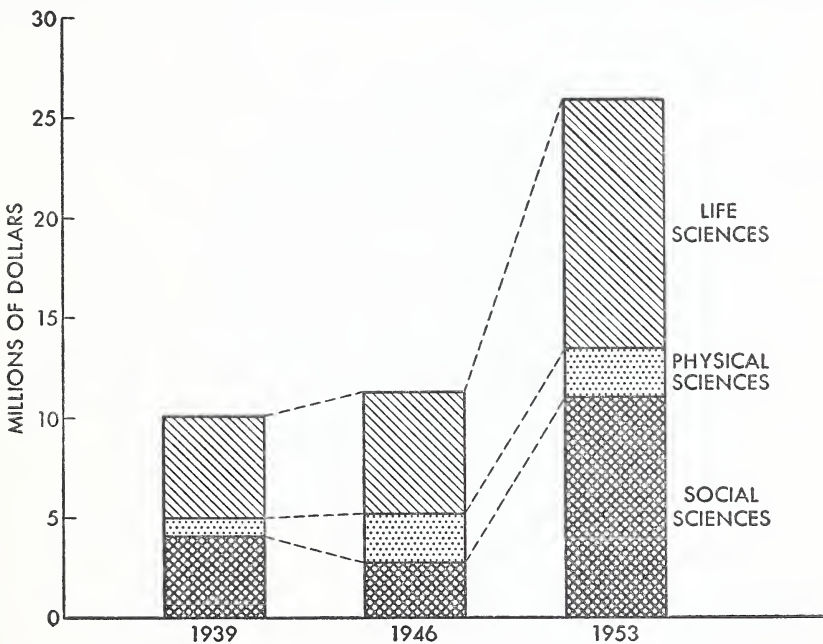


CHART 6. SUPPORT OF SCIENTIFIC RESEARCH BY 77 LARGER FOUNDATIONS IN 1939, 1946, AND 1953, BY FIELD

staff expenditures, and the relatively heavy staff research in some years in the medical and the social sciences. Staff research averaged 20 per cent of research expenditures in 1939 and 1946, and dropped to less than 14 per cent in 1953.

Flow of funds to the various sciences for all 77 foundations shows few changes from the record of the 37 foundations reporting in all three years. Indeed, addition of the 40 more foundations which were either formed since 1939 or did not have

TABLE 23. RECIPIENTS OF FUNDS FOR SCIENTIFIC RESEARCH FROM 77 LARGER FOUNDATIONS IN 1953,  
BY FIELDS OF SCIENCE

*Dollar figures in thousands*

Recipient	All sciences	Per cent	Medical	Per cent	Agricultural	Per cent	Biological	Per cent	Physical	Per cent	Social	Per cent
Total	\$25,906	100	\$7,698	100	\$1,047	100	\$3,730	100	\$2,422	100	\$11,009	100
Reporting foundation <sup>a</sup>	3,522	14	749	10	378	36	685	18	736	30	974	9
Colleges, universities, and professional schools	12,252	47	3,770	49	280	27	2,400	65	1,210	50	4,592	42
Health agencies <sup>b</sup>	2,645	10	2,539	33	0	0	50	1	0	0	55	0
Other agencies	5,964	23	457	6	368	35	368	10	272	11	4,500	41
Individuals	1,523	6	183	2	21	2	227	6	204	9	888	8

<sup>a</sup> Research done by staff of the reporting foundation.

<sup>b</sup> Hospitals were included here unless affiliated with medical schools.

NOTE: Minor discrepancies in totals are due to rounding.

SOURCE: Russell Sage Foundation survey for National Science Foundation.



records for the earlier period made remarkably little change in totals; the 37 foundations accounted for a little more than \$23 million for scientific research; the additional 40, less than \$3 million more. Scientific research is more characteristic of older and experienced foundations than of those initiating programs.

Much of the added \$3 million went to the medical sciences. This is an area where existing agencies can use almost unlimited additional funds, where outstanding accomplishment has been registered in the recent past, and where public approval is certain.

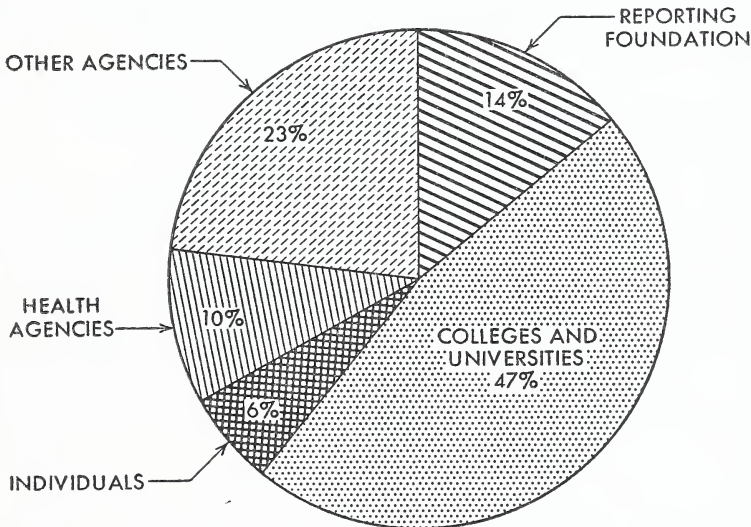


CHART 7. DISTRIBUTION OF FUNDS FOR SCIENTIFIC RESEARCH FROM 77 LARGER FOUNDATIONS IN 1953, BY RECIPIENTS

### *The Recipients*

For 1953, responding foundations were asked to divide their research expenditures not only between staff research and outside grants, but to indicate for the latter figure whether the moneys went to educational institutions (colleges, universities, professional schools), health agencies (including hospitals unless they were affiliated with medical schools), other agencies, or directly to individuals. The findings are recorded in Table 23 and Chart 7.

Colleges, universities, and professional schools received substantially half of all research funds disbursed by these foundations. The proportion rose to 65 per cent in the biological sciences where nearly all the research done was basic, and was low only in the agricultural sciences, where two foundations had substantial staff programs and one of these, together with one other, gave grants of considerable size to certain outside agencies.

It has already been noted that staff research was 14 per cent of 1953 research expenditures, having dropped from about 20 per cent in the earlier years of this record. Health agencies received 10 per cent of the total funds, nearly all of it for research in the medical sciences. The nondefined category, "other" agencies, consisted chiefly of welfare and coordinating organizations of a wide variety; they collectively received nearly one-quarter of the research funds, chiefly for social science research.

The mere 6 per cent granted directly to individuals requires explanation. Many foundations have a policy against making grants to individuals. Such a person, seeking support for a project, must apply under the auspices of a college or other tax-exempt organization, association, or even special committee. If the project is approved, the foundation pays the money directly to the organization, often in one lump sum, earmarked for the given project and person. This saves the foundation from the necessity of handling unscreened individual applications, often ensures a better initial presentation, simplifies bookkeeping, and avoids the detailed supervision which foundations are neither equipped for, nor desire to do. As a result, grants which actually went for individual work, after perhaps a small deduction for overhead, are often included in sums reported in this table as paid out to colleges and other agencies.

Eleven of the 77 foundations reported grants directly to individuals, with three of these—the Ford Foundation, the John Simon Guggenheim Memorial Foundation, and The Rockefeller Foundation—accounting for 93 per cent of the \$1.5 million total. Table 24 supplies information on the affiliations of the 466 individuals concerned, but must be regarded as only a partial picture for the reasons above stated.

These 11 foundations gave nearly all their individual grants to college personnel—78 per cent of the persons were in colleges, and they received 83 per cent of the total funds awarded to individuals. Faculty recipients almost exactly equaled in numbers predoctoral and postdoctoral students combined, and the professors received higher average grants; those for faculty averaged the highest for any group, \$3,899 as compared with an average for all individual recipients of \$3,270. The data do not reveal part or full-time commitments, it should be noted.

TABLE 24. AFFILIATIONS OF INDIVIDUALS RECEIVING GRANTS FOR SCIENTIFIC RESEARCH FROM 11 FOUNDATIONS IN 1953

Affiliation	Number of individuals	Per cent	Dollar amount	Per cent	Average per grant
Total	466	100	\$1,523,750	100	\$3,270
University, college, or professional school <sup>a</sup>	366	78	1,267,257	83	3,462
a. Faculty	182	39	709,647	47	3,899
b. Graduate students, predoctoral	117	25	311,247	20	2,660
c. Graduate students, postdoctoral	67	14	246,363	16	3,677
Health agencies	28	6	34,592	2	1,235
Research institutes	27	6	90,678	6	3,358
Other affiliation	37	8	113,206	8	3,060
Unaffiliated, or affiliation unknown	8	2	18,017	1	2,252

<sup>a</sup> Including affiliated hospitals, institutes, etc.

SOURCE: Russell Sage Foundation survey for National Science Foundation.

The number of individuals in health agencies and in research institutes receiving grants was about equal, 28 for the former and 27 for the latter, but grants to persons in research institutes were much higher. An additional 45 persons receiving 9 per cent of the funds in Table 24 were affiliated with agencies falling outside the above categories, or their affiliation was not known.

### *Research in Smaller Foundations*

It was impossible to extend this survey to the perhaps 4,500 additional smaller foundations. However, as a preliminary exploration of this field a random sample of 50 of these foundations

was obtained, and data concerning them taken from Form 990-A and other reports. Characteristically, their assets were small, in only two cases exceeding \$1 million, and totaling for the group \$7.6 million. Expenditures, however, totaled \$1,247,000; many of these smaller foundations are newly organized, with the donor still living, and serve as channels for giving out of current income.

From available descriptions of activities it appeared that not more than six of these foundations supported scientific research of any character, and in every case this was medical research. Attempts to establish amounts by correspondence proved not wholly successful; our estimate is \$62,000 for medical research, chiefly applied, in the given year. This would amount to 5 per cent of total expenditures for the group.

Reliable figures on the expenditures of all foundations are not available, but our preliminary estimate for 1953 puts the total at approximately \$300 million. With deduction of the \$164 million expenditures of the 77 larger foundations, \$136 million represents the smaller foundations, from which they may have spent about 5 per cent, or \$6.8 million, for scientific research, chiefly medical. This estimate is based upon inadequate data, but the evidence seems strong that their contribution in this area is slight; even wide variations in some of the elements of the calculation will not significantly affect the total.

Adding \$6.8 million to the amount found for the larger foundations brings the complete total of foundation research expenditures in 1953 to an estimated \$32.7 million.

## Fields of Activity

NO RECENT STUDY has been made of foundation expenditures in all fields comparable with the survey of their scientific research. Indeed, authorities disagree on the basic question of classification. For purposes of this discussion, no effort is made toward a fully coordinated division of the whole field of philanthropy or of human knowledge; categories have been selected pragmatically, for their usefulness with respect to present operations of foundations and with regard to classifications used in earlier studies, to facilitate comparisons.

### *Movement Among General Categories*

Ten major categories, with a residual "miscellaneous," have been chosen. Table 25 presents some data, unfortunately not fully comparable because from differing sources, on the movement of foundations and foundation funds among those fields.

The 1921 and 1930 data are from Eduard C. Lindeman's study of 100 foundations and community trusts, which gave dollar figures for each of nine (including miscellaneous) fields, but no indication of the number of foundations involved in any of these fields. Professor Lindeman defined education very broadly, and reported foundations making about half their expenditures in that area in both years. Health came next, with about a third of expenditures in 1921, a quarter in 1930. Social welfare represented nearly 19 per cent in 1921, dropping to about 13 per cent in 1930. No other classification accounted for as much as 2.2 per



cent in either year. Economics and the physical sciences did not appear at all, except as these were subdivisions under education.

In the 1944 study, foundations were asked to check any classification to which "15 per cent or more of the year's efforts or expenditures" had been devoted, and no attempt was made to assign dollar values. Many foundations checked more than one

TABLE 25. EXPENDITURES, OR NUMBER OF FOUNDATIONS MAKING EXPENDITURES OR EXPRESSING CURRENT INTEREST, IN CERTAIN FIELDS, 1921, 1930, 1944, AND 1954

*Dollar figures in thousands*

Field	1921		1930		1944		1954	
	Amount	Per cent	Amount	Per cent	Number	Per cent	Number	Per cent
Total	\$35,197	100.0	\$59,219	100.0	335	100.0	620	100.0
Education	15,072	42.8	32,661	55.2	163	48.7	449	72.4
Social welfare	6,545	18.6	7,910	13.3	150	44.8	404	65.2
Health	11,490	32.7	15,156	25.6	129	38.5	414	66.8
Recreation	151	0.4	572	1.0	51	15.2	118	19.0
Religion	752	2.1	715	1.2	37	11.0	189	30.5
International relations	727	2.1	951	1.6	26	7.8	42	6.8
Race relations	7	0.0	78	0.1	26	7.8	58	9.4
Economics	n.d.	—	n.d.	—	19	5.7	103	16.6
Government and public administration	445	1.3	1,161	2.0	19	5.7	104	16.8
Physical sciences	n.d.	—	n.d.	—	1	0.3	57	9.2
Miscellaneous	8	0.0	15	0.0	11	3.3	59	9.5

n.d.—no data.

SOURCES: For 1921 and 1930 data, Lindeman, *Wealth and Culture*, pp. 68-135; for 1944 data, Harrison and Andrews, *American Foundations for Social Welfare*, p. 79; for 1954 data, Rich, *American Foundations and Their Fields*, 7th ed., American Foundations Information Service, p. xxxvi.

classification. Nearly half of the 335 foundations included in this study indicated a substantial interest in education. Only slightly fewer, 45 per cent, also indicated social welfare, somewhat of a catch-all classification. Health was third with nearly 40 per cent, but, said our study at the time, "its position in available funds is certainly higher." Other classifications were reported by fewer foundations, but representations were not negligible.

The 1954 data (the year is only approximate) from the Rich survey represent checking of fields of current interest by the foundations themselves. Only 15 per cent of the entire group supplied such information, but these included 55 per cent of the largest foundations (those with assets of \$10 million or more) so that the flow of funds is substantially represented. However, the list of fields in the Rich survey included many more items than those in the table; in assigning some of these to major categories for comparison purposes, errors in choice may have occurred. The full report in the Rich survey should be consulted.

For the three large categories, Education, Social Welfare, and Health, percentages rose to a range of from about two-thirds to nearly three-quarters of the foundations reporting. This may be due largely to a more liberal interpretation of the word "interest," with relatively minor involvements being included. The substantial increase for Religion may be chiefly in number, with inclusion of many small family foundations, rather than indicating a sharp rise in total value of grants; in the Rich survey fewer than 8 per cent of foundations with assets over \$1 million indicated this field, but 42 per cent of the smaller foundations did so. A movement has taken place into the areas of Economics and Government and Public Administration; neither is in commanding position, but both are much higher than in any previous study.

No accurate statement of either changes in amounts of foundation grants among the various fields or the present amounts can be made on the basis of data available. However, discussion of specific activities and policies in these fields may prove illustrative and helpful.

### *Education*

As Table 25 indicates, education in one form or another is in the program of about half the foundations, and for many of them is a major concern. Of course, as we have already seen, colleges and universities are the most frequent channels of foundation giving even when ultimate purposes of the gift may be as

various as aid to a creative writer or a "program on glycoproteins." Also, the chapter on scholarships and fellowships represents in its entirety another form of giving to education. This chapter does not repeat observations on methods, channels, and special programs that have already been made, but presents a few recent programs centered on aid to education itself.

Such aid has been directed to education at all of its levels. The Charles Stewart Mott Foundation gives large sums to the board of education of Flint, Michigan, the amount reaching about \$1.8 million in 1953. Few other foundations contribute to the public schools, and even in higher education their gifts are more apt to go to private than tax-supported colleges and universities. But foundations, singly or in concert, have helped initiate programs in education at all levels. In the South:

There was the closest sort of cooperation between the various groups, and officers and directors often served more than one of these boards. . . . It was this type of cooperation, this interest of all these Boards or Funds in a common problem, which produced much of the progress in the South during the first three or four decades of this century. For example, the Peabody Fund and the Southern Education Board provided the salary for the first year for Jackson Davis, the first State Agent for Negro Schools, after which year the General Education Board took over his salary and extended to all other Southern States an opportunity to employ such agents. Dr. Seaman A. Knapp's system of farm demonstration work was supported first by the Southern Education Board and then by the General Education Board before responsibility for it—Four H Club Work—was accepted by the United States Department of Agriculture. Normal schools and summer schools likewise received their earliest stimulation and support from one or more of these individuals or agencies. . . .

The story of the cooperation and the mutual assistance developed in the South between the Peabody Fund, the Slater Fund, the Southern Education Board, the General Education Board, the Jeanes Fund, the Carnegie Corporation, the Phelps-Stokes Fund, the Rosenwald Fund, and others is an interesting chapter in American cooperative effort for better education, better health, and better life. . . .<sup>1</sup>

<sup>1</sup> Southern Education Foundation, *Biennial Report for 1950-51-1951-52*, Atlanta, Ga., 1952, pp. 30, 38.

Recent educational programs show wide variety. The Fund for the Republic, an independent entity set up by the Ford Foundation, announced in 1955 a study to "assess the degree of fear among teachers in such areas as the handling of controversial subjects in the classroom," and related matters. Two other independent funds set up by the Ford Foundation, the Fund for the Advancement of Education and the Fund for Adult Education, devote all their efforts and expenditures to educational projects. The latter Fund, as its name implies, supports "lifetime learning" projects usually outside the orbit of formal education. Recent substantial grants were made to the American Library Association for its program on "The American Heritage," to the Committee for Economic Development for projects in economic education, to the Great Books Foundation to extend its study discussion program, to the Educational Television and Radio Center for television and radio program development and exchange, to the Inter-University Labor Education Committee for development of programs and materials for union leaders.

The financial plight of higher education—where lower interest rates, rising costs, and vastly expanding enrollments have driven many private colleges into deficit financing—has been brought forcefully to the attention of most foundations. The situation with respect to receipts for current operation is presented graphically in Chart 8.

The universe here represented consists of 1,832 colleges and universities reporting to the Office of Education for the school year 1951-1952. Private institutions were much more numerous, but private and public were almost exactly equal in numbers of students and faculty. Total receipts for current operation exceeded \$2.5 billion (for private institutions, \$1,187 million; for public, \$1,375 million), these sums not including contributions toward endowment, plant expansion, or nonexpendable funds such as scholarships and student loan funds.

Sources of these receipts varied widely between private and public institutions. For the tax-supported group, government was the only substantial source, aside from auxiliary enterprises—which are dormitories, dining-halls, and intercollegiate athletics,



with income from these sources offset by closely corresponding expenditures. Even among private institutions endowment income has shrunk to 9 per cent; this was the item which both foundations and college administrators once believed would solve college financial problems for the whole future. Total private benefactions for current operation—from corporations, alumni,

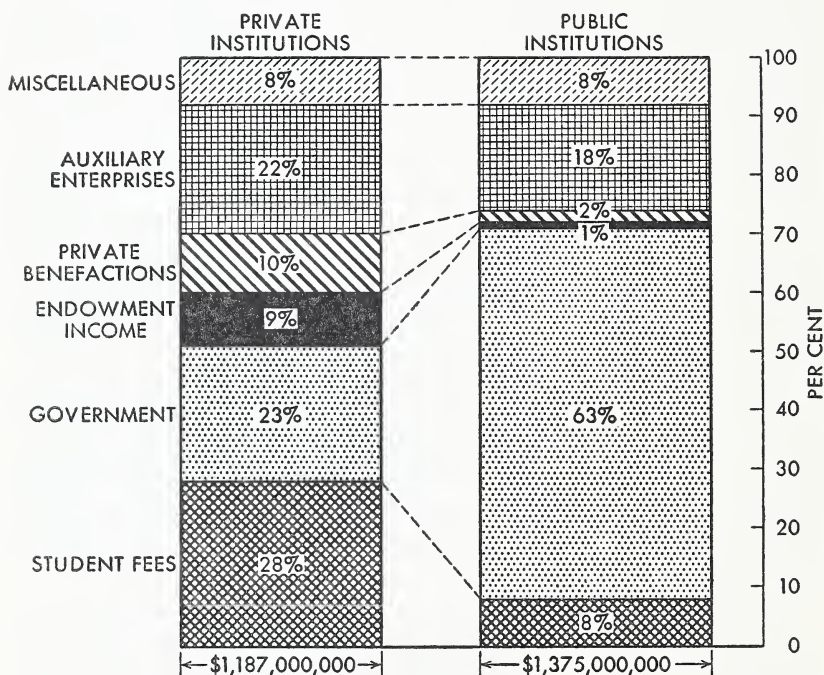


CHART 8. SOURCES OF RECEIPTS FOR CURRENT OPERATION IN HIGHER EDUCATION IN 1952

churches, foundations, friends—cover only 10 per cent of these costs in private colleges.

Some foundation contributions to colleges appear in the “private benefactions” item; in the case of research subsidies, under “miscellaneous.” They cannot be separately identified, but it is obvious that in the context of total operating costs they are small. The budget of higher education in the United States has



grown to such mammoth proportions that it can no longer be greatly affected by foundation contributions.

This is true even in light of the largest philanthropic gift on record, the Ford Foundation's appropriation of \$500 million in December, 1955. Of this tremendous gift, equal to the total assets of the next two largest foundations, \$210 million are earmarked for colleges and universities; \$200 million for hospitals; \$90 million for privately supported medical schools. The \$210 million will be granted in the next eighteen months to the 615 accredited private colleges and universities in the United States, in sums approximating their 1954-1955 payroll for instruction in the liberal arts and sciences. Each grant must be held for ten years as endowment, with income devoted to increasing teachers' salaries; thereafter restrictions are removed. (An additional \$50 million voted for teachers' salaries earlier in 1955 will now go to 126 schools which had already led the way in salary improvement "for raising faculty salaries or for other pressing academic needs.") But the \$210 million, superb gift that it is, can do no more than increase teachers' salaries some 4 or 5 per cent (depending upon investment yield) in a special group of 615 schools. It may have a leavening effect upon higher education, however, far beyond its specific dollar contribution.

In particular situations, and for individual colleges, foundations do make significant contributions. But more often these are directed toward special problems rather than general financing. The Louis W. and Maud Hill Family Foundation has subsidized an experiment among five liberal arts colleges in Minnesota in cooperative use of resources, so that each can offer its students facilities and services at any other. The foundations established by corporations have greatly expanded their aid to colleges, some of it for general support, some of it for specific projects, scholarships, or research. The United States Steel Foundation announced gifts totaling \$700,000 to 137 liberal arts colleges for the school year ending in 1955. The Olin Foundation has made several recent grants in the million-dollar range for college buildings, but among general foundations "bricks-and-mortar" programs are now rare.

Recently the Council for Financial Aid to Education asked colleges to list eight types of gifts in the order of their usefulness to the colleges, and then the same types of gifts were ranged in the order of current practice in corporation giving. As Table 26 shows, the colleges' first choice was the corporations' fifth; their second choice was last in corporation practice; and the corporations' most frequent practice, grants for research funds, was last in the colleges' estimate of usefulness. No similar table of foundation practice has been devised, but it is certain that it would not correspond closely to the preferences here expressed by the colleges.

TABLE 26. GIFTS TO COLLEGES IN THE ORDER OF COLLEGE PREFERENCE AND CORPORATION PRACTICE

Type of gift	Rank in	
	College preference	Corporation practice
Unrestricted funds	1	5
Capital funds for endowment	2	8
Capital funds for buildings	3	2
Scholarship funds	4	3
Funds for new equipment	5	6
Graduate fellowship funds	6	7
Specified departmental funds	7	4
Research funds	8	1

SOURCE: *Proceedings of Working Conference on Financial Aid to Education*. Council for Financial Aid to Education, New York, 1954, p. 13.

### *Health*

The broad field of health, including actual treatment of disease, hospitals and hospitalization, medical research, medical education, public health, and preventive education, probably closely approaches education in total foundation expenditures. Although more foundations expressed interest in the catch-all classification social welfare, the number of large foundations that spend all or nearly all their income on health projects makes it probable that this area receives larger foundation support than social welfare. This is true even though federal appropriations in the health field now dwarf all others, and in some areas have

made private research contributions less needed. It does not follow that medical discovery is reaching limits; indeed, each new discovery opens still wider the areas needing study. But in view of governmental and other funds now available, the shortage in some areas is in competent investigators rather than funds. Recent shifts in relative support of research, both the general picture and for medical research, are suggested in Table 27.

TABLE 27. SUPPORT FOR GENERAL AND MEDICAL RESEARCH, 1941 TO 1952

*Dollar figures in millions*

Source	1941		1944		1947		1952	
	Amount	Per cent	Amount	Per cent	Amount	Per cent	Amount	Per cent
<i>General research</i>								
Government	\$370	41	\$ 940	68	\$1,160	51	\$2,240	60
Industry	510	57	420	30	1,050	47	1,430	38
Nonprofit	20	2	20	2	50	2	80	2
Total	\$900	100	\$1,380	100	\$2,260	100	\$3,750	100
<i>Medical research</i>								
Government	\$3	7	\$10	16	\$28	32	\$73	42
Industry	25	55	35	60	35	40	60	35
Philanthropy	12	27	10	16	15	17	25	14
Other nonprofit	5	11	5	8	10	11	15	9
Total	\$45	100	\$60	100	\$88	100	\$173	100

SOURCE: Ladimer, Irving, "Trends in Support and Expenditures for Medical Research," *Public Health Reports*, February, 1954, p. 116.

According to this tabulation, the nonprofit contribution to all research, though it quadrupled between 1941 and 1952, remained a minor 2 per cent of the total. In medical research, philanthropy and other nonprofit sources contributed in 1941 a very significant 38 per cent; their contribution more than doubled, increasing by \$23 million by 1952, but in proportion had dropped to 23 per cent. This was largely due to the tremendous expansion in government expenditure for medical research, which grew from \$3 million to \$73 million. The chief channel for these expenditures is the Public Health Service, which includes seven national health institutes—the National Institute of Arthritis and Meta-

bolic Diseases, National Cancer Institute, National Institute of Dental Research, National Heart Institute, National Institute of Mental Health, National Microbiological Institute, and National Institute of Neurological Diseases and Blindness. The 1955 appropriations for medical research grant projects supported by the Public Health Service totaled approximately \$34 million. Other large users of federal funds for medical research are the Atomic Energy Commission, the Department of Defense, and the Veterans' Administration.

The general figures presented above do not separate foundation contributions from philanthropy and other nonprofit, and there is doubt whether they are based on a careful survey of foundation operations in these fields. Our information on this subject has been presented in Chapter 10, particularly Table 23.

The foundations contributing most heavily to medical and biological research in 1953 were The Rockefeller Foundation, M. D. Anderson Foundation, Carnegie Institution of Washington, John and Mary R. Markle Foundation, Commonwealth Fund, Samuel S. Fels Fund, Josiah Macy, Jr. Foundation, and the Alfred P. Sloan Foundation. Many of these foundations supported basic rather than applied research, and in general their policy was to stimulate investigation in new fields and to support it where other funds were least available. The observations of the President's Scientific Research Board in 1947 are still applicable:

New activities are subsidized for a short time, and then support is gradually withdrawn as the merits of the work attract support from other sources. For example, after the establishment of the National Foundation for Infantile Paralysis, nearly all other support was withdrawn from poliomyelitis research. Several foundations are now investing heavily in research on nutrition and neuropsychiatry. When these fields become more widely recognized and attract more support, the foundations may withdraw and turn their attention elsewhere. This has been the outstanding contribution of the foundations: to initiate exploration of fresh medical fields, in the hope of finding new knowledge and attracting recognition of these new fields.<sup>1</sup>

<sup>1</sup> Steelman, John R., *The Nation's Medical Research*. Vol. 5 of *Science and Public Policy*. Government Printing Office, Washington, 1947, pp. 20-21.



Present foundation activities in the health field cover many projects that fall outside the area of scientific research, including personnel training, building programs, health education, individual treatment. A sampling of recent projects will suggest this variety.

In 1954 three Pittsburgh foundations—The A. W. Mellon Educational and Charitable Trust, Richard King Mellon Foundation, and Sarah Mellon Scaife Foundation—gave \$15 million to the University of Pittsburgh for its school of medicine, primarily to strengthen its teaching faculty. The Samuel H. Kress Foundation made a conditional grant to New York University of approximately \$8.5 million in 1948, payable over a period of ten or more years, for the University's Post-Graduate Medical School, part for current support and part for capital purposes. The same university received in 1954 from the Murry and Leonie Guggenheim Foundation a grant of \$500,000 to be paid over five years to establish an Institute of Dental Research as part of its college of dentistry. The Commonwealth Fund in its 1953 fiscal year gave over \$4.5 million in a wide variety of medical grants, the largest being \$2.75 million for a dormitory for medical students at Yale University as a memorial to Edward S. Harkness, first president of the Fund. In 1954 The Rockefeller Foundation appropriated \$1 million for the University of California to explore ocean resources and "bring the sea into the laboratory," with emphasis upon the sea's tremendous potential food resources in view of the increasing seriousness of the world food problem. The John A. Hartford Foundation announced in 1955 a grant of \$3,160,000 to Yale University for biophysics, with \$460,000 earmarked for construction of a research laboratory and the remainder constituting a grant of \$180,000 a year for 15 years for support of a newly established department of biophysics.

The outstanding recent grant in the health field is the Ford Foundation's tremendous appropriation, already noted, which includes \$200 million to be disbursed in grants to some 3,500 voluntary nonprofit hospitals in the United States and its possessions "for any program of improvement or extension of hospital service, but not for operating expenses for services currently



being performed by the hospitals." An additional \$90 million was granted for privately supported medical schools "to help them strengthen their instruction."

Sometimes a small, local experiment grows into a widespread program, as in this W. K. Kellogg Foundation example:

The people of Kalamazoo County, Michigan, desired to do something to reduce the number of deaths and injuries occurring from accidents in their homes. After three years of experimentation, with assistance from the Foundation, the accomplishments appeared to be of real significance. Subsequently, similar grants were made to three other local health departments and this year to eight state departments of health for further experimentation in the field of home accident prevention. Virtually all our activities today, on the national and international levels, are based upon preliminary experience and testing done at the local level.<sup>1</sup>

As with education, total health needs (in 1952 it is estimated that \$14.4 billion were spent in the United States for health and medical services and facilities for civilians<sup>2</sup>) are beyond the resources of all the foundations together. Even the narrower field of medical research should have "not less than \$300 million a year" by 1957 according to the President's Scientific Research Board.<sup>3</sup> In this area foundations have made, and can continue to make, significant contributions. But money alone cannot solve these problems.

There is a widespread expectation that if enough money is made available, medical research laboratories will produce startling discoveries almost overnight. . . . Such abundant hopes are foredoomed. The success of medical investigators in solving difficult problems during the war was based upon the scientific ground-work laid years ago by the unhurried, untrumpeted investigations of thoroughly trained research scientists. The hope of the future in medical research lies in preserving a balance between the search for new fundamental knowledge and application and development of new techniques, and in training an adequate supply of skilled investigators.<sup>4</sup>

<sup>1</sup> *Annual Report, 1952-1953*. Battle Creek, 1953, p. 4.

<sup>2</sup> Dewhurst, J. Frederic, and Associates, *America's Needs and Resources: A New Survey*. Twentieth Century Fund, New York, 1955, p. 294.

<sup>3</sup> Steelman, John R., *op. cit.*, p. 10.

<sup>4</sup> Steelman, *op. cit.*, pp. 9-10.

*Social Welfare*

Social welfare has certain catch-all characteristics, which may account for the very large number of foundations in this classification. It includes such humanly appealing causes as bread for the poor, homes for children, and care for the aged, which constituted the chief concern of many of the older foundations and trust funds before social security and other governmental programs largely took over responsibility for primary relief needs.

By no means all foundations have deserted the relief field, and indeed some cannot do so without court action. Current reports include items such as these:

From the income of the *Archibald Thomson Fund* a total of 2,182 loaves of bread were delivered to the poor of the City of Philadelphia at a cost of \$436.40.<sup>1</sup>

During the past year 23 boys were indentured. Loans of \$500 each were made to 10 apprentices; the notes of 17 boys have been surrendered and the benefit of \$500 granted to each. Four girls were indentured. Five girls who served apprenticeships have married and received their marriage portions. One hundred fifty-eight widows have been paid \$50 each, and 254 brides have received marriage gifts of the same amount.<sup>2</sup>

But the picture of welfare support has changed radically in the past several decades. Table 28 shows welfare expenditure rising from about \$3 billion to \$20 billion in twenty years. But most of this expansion has been in the public welfare field, where expenditures rose from slightly more than \$1 billion to more than \$12 billion, and from 45 per cent of the 1930 estimated total to 62 per cent of the 1950 estimate. Even in the private welfare field the most remarkable gains were not recorded in any area of voluntary giving but in the new \$3 billion item of health and welfare funds gained from business by collective bargaining and by strikes.

In spite of this sweeping change toward public, wholesale relief and "insurance" programs, foundations still perform useful

<sup>1</sup> *Report for 1954*, Board of Directors of City Trusts of the City of Philadelphia, p. 27.

<sup>2</sup> *One Hundred Seventh Annual Report of the Trustees of the Smith Charities*. Northampton, Mass., 1955, p. 9.

services in this area. For example, in 1954 the Frederick and Amelia Schimper Foundation sponsored a series of regional conferences on standards of care for older people in institutions, attended by state commissioners of health and welfare and administrators of both public and voluntary institutions. The Rosenberg Foundation appropriated \$55,860 for a California Citizens Committee to secure the facts concerning children's shelter care and detention in that state. The Rockefeller Brothers Fund made

TABLE 28. PUBLIC AND VOLUNTARY WELFARE EXPENDITURES<sup>a</sup>  
IN THE UNITED STATES, ESTIMATED FOR 1930, 1940,  
AND 1950

*Dollar figures in millions*

Source	1930	1940	1950
Total expenditures	\$2,876	\$7,144	\$19,902
<i>Voluntary welfare</i>	<i>1,588</i>	<i>1,715</i>	<i>7,518</i>
Charitable contributions of living donors, corporations, and charitable bequests <sup>b</sup>	1,204	1,245	4,146
Income from capital of philanthropic institutions <sup>c</sup>	260	300	568
Employers' contributions to private health, welfare, and pensions	124	170	2,804
<i>Public welfare</i>	<i>1,288</i>	<i>5,429</i>	<i>12,384</i>
Social insurance	407	1,241	4,744
Veterans' welfare programs	695	452	4,545
Public aid (relief, work relief, public assistance)	105	3,592	2,585
Other welfare	81	143	510

<sup>a</sup> Excluding public health and medical services.

<sup>b</sup> Includes total "deductible" charitable giving.

<sup>c</sup> Excludes college endowment income.

SOURCES: For employers' contributions and all public welfare items, Dewhurst and Associates, *America's Needs and Resources*, Twentieth Century Fund, 1955, p. 431; for other items, Andrews, *Philanthropic Giving*, p. 72, with revisions for this study.

a three-year grant, to begin in 1955, to the Community Service Society of New York for a study of psychological, social, and health problems associated with aging, and how to promote a "good old age."

Such programs usually do not offer direct relief, an ocean of need in which the resources of even the largest foundations could be swallowed up unnoticed. But they do give direction and help to large governmental programs or seek out some of the ultimate causes of our social dis-eases. Indeed, a pronounced swing has

been observable in recent years on the part of many private foundations from the older and "safe" programs centering on relief, routine aid to education, and medical research into the explosive issues of learning to live together in the modern world. The size and nature of this growth as it is reflected in research in the social sciences have been documented in the preceding chapter.

Chief contributors to social science research in 1953, in order of size of expenditure, were the Ford Foundation, The Rockefeller Foundation, Carnegie Corporation of New York, A. W. Mellon Educational and Charitable Trust, Maurice and Laura Falk Foundation, Russell Sage Foundation, Twentieth Century Fund, and Carnegie Endowment for International Peace.

### *Recreation*

The Department of Commerce estimates our national recreation expenditures for goods and services at \$11.9 billion for 1953. Foundations have had little part in this vast expenditure, most of which has been supplied enthusiastically by the participants themselves. But many community trusts and some other foundations support local public recreation, including parks. The Estate of Harry C. Trexler provides that one-fourth of the net income "shall be paid annually and perpetually into the Treasury of the City of Allentown, to be used by the City for the improvements, extension and maintenance of all of its Parks." The Sarah Mellon Scaife Foundation built a Children's Zoo in Pittsburgh, supports a recreation program for Pittsburgh teen-agers, and financed a three-year tree planting program enabling this city to plant some 700 trees a year along its streets and establish a tree and shrub nursery. The Old Dominion Foundation gave \$309,000 in 1952 to the government of the United States toward establishment of the Cape Hatteras National Seashore Recreational Area in North Carolina. The Avalon Foundation also contributed toward the Cape Hatteras project, and a number of other similar purposes, including restoration of historical sites. The Ray and Charles Newman Memorial Foundation voted \$125,000 in 1955 for a "Fragrance-Touch Garden for the Blind" in New York City's Central Park.



If the arts are included in a broad definition of recreation, here the contributions of foundations have been notable. The A. W. Mellon Educational and Charitable Trust, from its inception through 1953, made grants to the National Gallery of Art in Washington totaling \$79 million, including many notable works of art. In 1953 the Rockefeller Brothers Fund announced a five-year grant of \$125,000 a year under jurisdiction of the Museum of Modern Art for international exchange of art through exhibitions of American paintings in various countries and of foreign art in the United States. The Presser Foundation has supported music through a wide program, including a home in Germantown, Pennsylvania, for retired music teachers, assistance for music teachers in distress, music scholarships, Presser Halls at ten colleges, and, like the Griffith Music Foundation, it has assisted school children in attending outstanding musical events. Several foundations have followed the Maecenas pattern of acting as patron to writers, sculptors, musicians, painters; the most noteworthy program in this field is that of the John Simon Guggenheim Memorial Foundation, already outlined.

Giving in the field of recreation has its own special problems and rewards. If the gift is a public facility, such as a park, it should not be a mere substitute for tax moneys the citizens would normally supply. But sometimes an emergency opportunity appears which must be seized at once, or be lost. Sometimes a foundation can supply a facility the local citizens could not afford, but greatly need and will agree to maintain. For any public project, the interest and participation of the affected citizen group is a primary requirement.

Giving in the arts is itself an art, requiring sound but adventurous esthetic judgment and ability to deal with the artistic temperament. Aid once granted to musical organizations, theater groups, or struggling art publications, is apt to grow into annual requests. Some "civic" organizations are found on closer examination to be devoted primarily to the glory and perhaps profit of one individual. But beauty remains a commodity in scarce supply which mankind deeply needs. The rewards of successful giving are great. When Gaius Maecenas devoted some of his



fortune to supporting two farm-boy protégés in the unlikely field of poetry, Quintus Horatius Flaccus and Publius Vergilius Maro enriched the world's literature and made their patron's name the immortal symbol for such giving.

### *Religion*

About half of all philanthropic giving in the United States goes to religious agencies. Nevertheless, or possibly because of this fact, only a few foundations make substantial contributions in this area. In our 1944 tabulation, religion claimed a total of 37 foundations, or 11 per cent, six of which called it their sole interest. The 1954 tabulation showed 189 foundations, or 30 per cent of those replying, expressing interest in this field, but the great majority of these were small family foundations, with their religious "grants" in many cases substituting for personal contributions to church or synagogue. In considering these figures it should be remembered that ecclesiastical "foundations" that lack separate organization or operate within a single religious group are excluded from the listings, which otherwise would be much longer.

General foundations find difficulty in giving to religion in terms of the different faiths or particular denominations, though this is precisely the form that such giving takes with some of the family foundations, where the donor designates a church or possibly the promotion of a particular creed. These difficulties are sometimes resolved through equal gifts to all the chief faiths, or to organizations that are interfaith or at least interdenominational.

Programs of foundations in this area are quite diverse. Several furnish scholarships to prospective ministers, or give direct aid to theological seminaries. The indenture of the Duke Endowment requires payment of 10 per cent of the distributable income for building and operating churches in North and South Carolina and 2 per cent for ministerial pensions. The J. C. Penney Foundation set up Penney Farms in Florida for the benefit of aged, retired ministers and their wives or widows. The New World Foundation, not yet in active operation, is enjoined by the will of its donor, Mrs. Anita McCormick Blaine, to support among other items "the growth of the spiritual, as distinguished from the

material, elements of human life." The Church Peace Union, founded by Andrew Carnegie, was set up to interest, arouse, and organize "the world's moral forces and men of all religions in behalf of world peace." The Farm Foundation includes religion in its current program, "particularly the economic training of rural ministers." The Atkinson Charitable Foundation of Toronto has for some years supported the snowmobile trips of a parkarobed bishop to Indians and Eskimos in the wilderness near James Bay as part of a program carried on by the Anglican Church. Foreign missions, once a frequent object of foundation support, have declined in importance under present conditions.

The Edward W. Hazen Foundation, emphasizing religion and higher education, conducts programs in student counseling and has supported various publishing projects in the religious field. The Israel Matz Foundation assists in the publication of Hebrew classics. The Swedenborg Foundation distributes the writings and promotes the doctrines of Emanuel Swedenborg. The LeTourneau Foundation was established "to teach, promulgate, and disseminate the gospel of Jesus Christ throughout the world" and other related purposes. The 1954 grants of the James Foundation of New York included \$355,000 for such varied religious purposes as the current work of Union Theological Seminary in the City of New York and St. Vladimir's Orthodox Theological Seminary, helping to initiate a program for a graduate department of religion at Princeton University, and the building fund of a woman's college in Japan under auspices of the American Board of Commissioners for Foreign Missions.

### *International Relations*

Programs bearing on international relations were found in 8 per cent of the foundations reporting in 1944. The proportion is not large today, but with increasing recognition that our own welfare and perhaps survival are deeply affected by developments outside the United States, substantial funds are being devoted by some of the larger foundations to studies with international aspects.<sup>1</sup>

<sup>1</sup> See pp. 215-217.

Some foundations concentrate on relations between the United States and a particular foreign country, as the American-Scandinavian Foundation, Kosciuszko Foundation (Poland), Tolstoy Foundation (presently Russian emigres), Watumull Foundation (India). The travel scholarships and fellowships already discussed<sup>1</sup> are an important part of most of these programs.

The promotion of peace has been the central aim of a number of these foundations (Carnegie Endowment for International Peace, World Peace Foundation, Woodrow Wilson Foundation), and a major concern with most others operating in the international field. In 1910 when Andrew Carnegie gave \$10 million for this purpose he apparently believed that it was only necessary for his Endowment to help persuade nations to accept arbitration treaties, and optimistically provided that after the "speedy abolition of international war" the funds could be transferred to combatting "the next most degrading remaining evil or evils." Forty years later another foundation discussed the same problem, seeing more complexities:

The underlying causes of war are many—poverty and disease; the tensions which result from unequal standards of living and economic insecurity; racial conflict; and the forces generated by political oppression and conflicting social theories and beliefs. Half the people of the world are either starving or lack adequate food, and illness and disease are widespread. Such conditions produce unrest and social instability, and these, when aggravated by ignorance and misinformation, produce a climate conducive to conflict.<sup>2</sup>

The attacks of the foundations on the problem have reflected this broad approach. The Rockefeller Brothers Fund endeavors to improve conditions in foreign countries through economic and technical aid; it pledged \$787,500 for 1953-1955 to IBEC Research Institute for agricultural research in Venezuela and Brazil. The Ford Foundation, in addition to foreign aid and the fellowship programs already described, granted in 1955 \$4,650,000 to four law schools for a ten-year program in training and research

<sup>1</sup> See pp. 250-254.

<sup>2</sup> *Report of the Study for the Ford Foundation on Policy and Program*. Ford Foundation, Detroit, 1949, p. 26.

in international legal problems. A program in Near Eastern studies at Princeton University was begun in 1947 with funds from The Rockefeller Foundation, Carnegie Corporation of New York, William T. Grant Foundation, and the Cleveland H. Dodge Foundation, covering all aspects of the Near East with emphasis on such languages as Arabian, Persian, and Turkish. Early in 1955 The Rockefeller Foundation announced an additional \$500,000 for this project, and \$500,000 for a Southeast Asia program at Cornell University. This pattern of area studies has been particularly emphasized with respect to the Soviet Union, notably through the Russian Research Center at Harvard University supported by the Carnegie Corporation of New York and the Russian Institute at Columbia to which The Rockefeller Foundation has made substantial grants.

### *Race Relations*

Problems facing Negroes, Jews, and other minority groups are included in the programs of a relatively small number of foundations. Because of the extent and severity of the Negro problem in the United States, substantial foundation funds have been appropriated, but in a changing climate of opinion. The Julius Rosenwald Fund, now discontinued, devoted a large share of its total expenditures of \$22 million to Negro health, education, and welfare, with \$3 million specifically devoted to race relations. It noted three stages in attitudes toward the Negro:

1. As late as 1917, when the Fund was established, Negroes were popularly regarded as a distinctly inferior group.
2. The contributions of colored Americans during and following the years of the First World War led to a shift from the myth of inferiority to the idea that Negroes had potentiality for growth and development. But it was still felt that opportunities should be given them only within the framework of segregation.
3. As the Fund ended its existence, America had come to the third stage—recognition that the integration and full participation of Negroes and all others in our society is not only possible but that it is imperative if we are to realize our democratic ideals.<sup>1</sup>

<sup>1</sup> Embree, Edwin R., and Julia Waxman, *Investment in People: The Story of the Julius Rosenwald Fund*. Harper and Bros., New York, 1949, p. 162.



The problems of this third stage were given fresh accent by the desegregation decision of the Supreme Court<sup>1</sup> in 1954. In that year the Fund for the Republic awarded \$240,000 to the Southern Regional Council for its interracial improvement program. The Philip Murray Memorial Foundation gave \$75,000 to the National Association for the Advancement of Colored People Legal Defense and Education Fund for promoting full acceptance of civil rights guaranteed by the Constitution. The Phelps-Stokes Fund and the Southern Education Foundation support projects for Negroes, especially in the educational field. Additional programs concern Jewish, Japanese, and other minority groups. Recent emphasis has been upon adjustment to cultural differences rather than stress upon race.

### *Government and Public Administration*

This is an area in which foundations might render notable service as advisory and standard-setting agencies, free from the bias of self-interest. But comparatively few foundations are active in this field.

The Thomas Skelton Harrison Foundation has as its central purpose the promoting of good government in Philadelphia. The John Randolph Haynes and Dora Haynes Foundation of Los Angeles, formerly concentrating support on the regional problems of its local area, made a grant of \$42,300 in 1953 to the Brookings Institution for a study of methods of nominating presidential candidates in the United States. The Spelman Fund of New York, no longer in existence, devoted its original endowment of \$10 million and additional funds received from The Rockefeller Foundation to problems of public administration, with its most notable accomplishment the creation and financing of the Public Administration Clearing House in Chicago. Russell Sage Foundation invested more than \$1 million in a regional plan for New York and its environs and engaged in other city planning projects.

Economic studies of the Twentieth Century Fund often deal directly with such governmental problems as taxation, economic

<sup>1</sup> *Brown v. Board of Education*, 347 U.S. 483.



controls, the national debt, antitrust legislation; and a recent review of its program proposed increased attention to political problems. The Ford Foundation established in 1952 the Fund for the Republic with a gift of \$15 million, with a primary concern for "the elimination of restrictions on freedom of thought, inquiry, and expression in the United States, and the development of policies and procedures best adapted to protect these rights in the face of persistent international tension." The program of this Fund is still in process of formation, but will undoubtedly include many problems in the area of government.

Among the several hundred organizations that promote "the American way" in interpretations varying from extreme right to extreme left are several which call themselves foundations. Some are outright fund-raising rackets, others are sincere organizations with active programs, but nearly all lack substantial funds of their own and, as fund-raising rather than fund-disbursing agencies, fall outside this discussion.

### *Economics*

In earlier years few foundations ventured into the controversial field of economics. When they did, severe criticism arose from factions representing either or both wings of economic doctrine. All three investigations of foundations have turned largely upon their alleged economic activities and influences. The *Final Report* of the Select (Cox) Committee pertinently commented:

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.<sup>1</sup>

Nevertheless the Special (Reece) Committee went into operation the following year predicated on the judgment of its chairman, announced in advance, that there was "a diabolical con-

<sup>1</sup> *Final Report of the Select Committee to Investigate Foundations and Other Organizations*. 82d Congress, 2d Session. House Report No. 2514, Washington, 1953, p. 10.

spiracy back of all this. Its aim is the furtherance of socialism in the United States.”

The relative absence of foundations in the field of economics was the factor which moved the trustees of the Twentieth Century Fund to make “its primary concern an effort to solve certain major economic problems” after its first study of foundation programs in 1929. It reported:

A chart made of the various foundations and their fields of interest shows that only 12 out of 108 make grants in this particular area. Only nine foundations are concerned with pure economic research, and seven are committed to action in this field. Out of the \$60,000,000 or so distributed each year by the 108 leading American funds, only about \$1,500,000 goes to economics—less than 3 per cent.<sup>1</sup>

Resistance to programs in economics had been strong. As early as 1914 The Rockefeller Foundation had appointed a committee of economists “to make a selection of problems of economic importance which could be advantageously studied.” Frederick T. Gates vigorously opposed such investigations, and the proposals of the committee were tabled; for a substantial period “the Foundation had to all intents and purposes been captured by the doctors.”<sup>2</sup>

The situation is much changed today. The Maurice and Laura Falk Foundation in its report for 1951 and 1952 indicated that 43 per cent of its allocations went to economic research and educational activities in economics. The Robert Schalkenbach Foundation endeavors to keep before the public the single tax and other economic ideas of Henry George. The Rockefeller Foundation in its later history gave to the National Bureau of Economic Research some \$7 million, including the appropriations of the former Laura Spelman Rockefeller Memorial, which was consolidated with the Foundation. Many corporation foundations, recently organized, contribute to studies or education in economics. Indeed, substantial sums recorded under research in

<sup>1</sup> *Annual Report, 1930*. New York, 1931, p. 13.

<sup>2</sup> Fosdick, Raymond B., *The Story of The Rockefeller Foundation*. Harper and Bros., New York, 1952, p. 193.

the social sciences in the preceding chapter were devoted to economic research.

### *Variety*

Any examination of the operation of foundations in general, or even the activities of one large foundation over a period of years, presents a picture of bewildering variety. A magazine for the blind, maintenance of an art gallery, rehabilitation of unmarried mothers and prostitutes, preservation of wild life, research in aircraft structure and design, purchase of a 65-acre tract of primeval forest in New Jersey, medals for heroes, the discovery of new facts, dissemination of knowledge already gained—these are random choices of projects, some of which do not readily fit into any set of predetermined categories. To any one judge, not all seem equally important; some, not important at all. But the richness that foundations contribute to American life is in part the result of this variety. In a debate in the British Parliament on philanthropic trusts the Lord Archbishop of Canterbury asked pertinently:

Why must every trust go to the best possible use—to the maximum service? Is there not a place for a trust which has some subsidiary use of second-rate importance, not anti-social, but historical and helpful and worth preserving?<sup>1</sup>

<sup>1</sup> *Hans. Parliamentary Debates*, vol. 183, no. 93, 22 July 1953, House of Lords Official Report, pp. 762–763.

## Reporting and Publicity

REPORTING may be considered under three heads: required reporting to governmental agencies; voluntary reporting to the general public; and special reports and publicity with respect to particular projects or interests.

### *Public Accountability*

Foundations and charitable trusts receive from society certain privileges, of which tax exemption is the most tangible. Once their exempt status has been established, gifts to them can be deducted from the taxable income of the individual or corporate donor up to the deductible limits established, and the foundation or trust pays no tax on its own investment or other income unless derived from actual operation of a business not related to its charitable purpose.

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. The availability of the new social asset should be made known promptly, at least to public authorities and possibly widely. Society should have the means of protecting itself against the theft, squandering, or unreasonable withholding of this promised benefit. Finally, the operations of the exempt organization should be fully and regularly reported, with adequate pro-

vision for review by a public authority possessing power to correct abuses. This constitutes accountability.

Careful distinction must be made between accountability and control. Society has the clear right to define broadly the social goals within which tax exemption and other special privileges are granted. It also has the legal right to impose controls, but could do so only at heavy cost. The creation of a controlling authority, with power to divert foundation funds into only such channels as might receive wide public approval at a given moment, would both discourage further gifts from thoughtful donors and threaten the freedom to experiment of existing foundations.

In some quarters the idea persists that money given to a foundation remains the possession of the donor, and he is under no obligation to account for it in any way. When the Select (Cox) Committee called Henry Ford II to the stand to testify concerning the Ford Foundation, of which he was a trustee and board chairman, Representative Cox, in an unguarded moment, made this statement:

I deem it extraordinary that he should volunteer to come here and give us his views on the questions that we are undertaking to investigate, and I think it is extraordinary that a young man of great wealth like himself should seemingly consider himself somewhat as a trustee for the use of the great funds *which are his*.<sup>1</sup> (Emphasis ours.)

This conception of continuing ownership and right of control was specifically denied by Mr. Ford, but it persists among some of the family foundations, particularly where there is little dedicated corpus and grants are made largely out of annual giving.

Most of the larger, older foundations accept the doctrine of full accountability as a public trust, but without surrender of program control. The Select (Cox) Committee asked the larger foundations this question: "In your opinion, has the public a direct interest in tax-exempt foundations and comparable organizations?" Out of 42 replies, 39 were affirmative, three were con-

<sup>1</sup> *Hearings Before the Select (Cox) Committee to Investigate Tax-Exempt Foundations*. U. S. House, 82d Congress, 2d Session, Government Printing Office, Washington, 1953, p. 218.



ditionally negative.<sup>1</sup> Twenty of these replies emphasized tax exemption as a factor in this public interest, fifteen mentioned their activities for the public benefit, seven stressed the public trust aspect, and several other factors were adduced, a few foundations including more than one factor. We quote from these statements:

Above all, the public has a stake in the foundations because the work of the foundations is directed toward broad objectives of great concern to our society.<sup>2</sup>

In our opinion any tax exempt agency is affected with a public interest. In a strict sense, tax-exemption is a form of public subsidy which of itself is ample ground for a direct public interest. In addition, the fields of most foundations having to do with educational and philanthropic subjects concern the public as a whole, even though many of the grants may be highly specialized.<sup>3</sup>

But—

In our opinion the fact that a foundation has been exempted from taxation does not of itself give any "direct interest" to the public, any more than the public has a direct interest in Harvard University, Yale University, or any other privately endowed educational institution, or in all of the churches of the United States, by virtue of the fact that those organizations are exempt from taxation.<sup>4</sup>

Russell Sage Foundation, in testimony before the Select (Cox) Committee, suggested this "program to ensure accountability for all foundations":

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 990-A.

<sup>1</sup> Analyzed in Spivack, Sydney Shepherd, *Foundations and Accountability*. Master's thesis submitted to the Faculty of Political Science, Columbia University, 1953, 166 pp. Unpublished.

<sup>2</sup> Carnegie Endowment for International Peace, *Answers to Questionnaire*, p. 105.

<sup>3</sup> Samuel S. Fels Fund, *Answers to Questionnaire*, p. 22.

<sup>4</sup> Godfrey M. Hyams Trust, *Answers to Questionnaire*, p. 51.

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.<sup>1</sup>

### *Legal Requirements in the States*

Since most foundations are creatures of the various states, set up under nonprofit incorporation acts, trust acts, or other special legislation, the state should normally provide for registration and reporting, visitation, and action to correct abuses. But a recent review of the situation by Eleanor K. Taylor<sup>2</sup> revealed that only a few states have even reasonably adequate provisions for registration and periodic reporting. An accurate and current register would seem a first essential, but apparently it has not been achieved even in England, after several centuries of experience and legislation concerning charitable trusts. Said Lord Beveridge:

All charitable trusts should be registered . . . so that those who wish to use them in meeting human needs may be enabled to find out what money is available for meeting those needs. There are at present literally no means of making that discovery. . . . Recording does not mean control. It means substituting light for darkness in the use of funds given for charitable purposes.<sup>3</sup>

It is not possible to detail here the widely varying provisions—and often lack of provision—governing registration, reporting, and supervision in the different states. The study by Miss Taylor already mentioned discusses this legislation, with full treatment of the progressive statutes in New Hampshire and Rhode Island covering trust registration and reporting, and presentation in the appendix of the Model Non-Profit Corporation Act prepared by a committee of the American Bar Association.

### *Federal Provisions in the Tax Law*

The need for registration and reporting on a compulsory basis is to some extent met by provisions of the Internal Revenue

<sup>1</sup> *Hearings*, Testimony of F. Emerson Andrews, p. 49.

<sup>2</sup> *Public Accountability of Foundations and Charitable Trusts*. Russell Sage Foundation, New York, 1953.

<sup>3</sup> *Hans. Parliamentary Debates*, vol. 183, no. 93, 22 July 1953, House of Lords, p. 786.

Code. In order to secure tax exemption foundations must go through a procedure already described<sup>1</sup> which results in their inclusion in the *Cumulative List* published by the Internal Revenue Service. Unfortunately, this "registry" in its latest edition (1955) includes some 38,000 organizations in the exempt category, only a small proportion of which are foundations; no description of activities is given, nor even street addresses.

Reporting provisions are somewhat more helpful. Foundations, as well as other organizations that claim exemption under Section 501(c)(3), must file annual reports on Form 990-A<sup>2</sup> showing

- a. Gross income
- b. Expenses
- c. Disbursements from income for exempt purposes
- d. Accumulation of income within the year
- e. Aggregate accumulation of income at beginning of the year
- f. Disbursements from principal in current and prior years for exempt purposes
- g. Contributions, gifts, grants, etc., received
- h. A balance sheet as of the beginning and end of the year

The form as revised in November, 1955<sup>3</sup> does not alter the information requested, but requires specific statement as to whether certain "prohibited transactions" have been indulged in, such as contributions to relatives, or advocacy of legislation, or participation in political campaigns. Since 1950, pages 3 and 4 of these forms have been open to public inspection at the offices of the district directors of internal revenue. These pages include the items listed above except for item g; and they do not show certain organizational information appearing on the earlier pages.

Form 990-A is presently the best approximation to a national foundation registry, but it leaves much to be desired. Except by Presidential order, these forms cannot be consulted in any central place; the inquirer who desires information on all the foundations must travel to the offices of 64 directors of internal

<sup>1</sup> See pp. 59-61.

<sup>2</sup> Trusts claiming contributions deduction under Section 642(c) file the similar form 1041-A.

<sup>3</sup> Reproduced in Appendix F.

revenue all over the United States. Filing efficiency differs radically in the various offices. In some, reports from a wide variety of exempt organizations are filed together so that much search and skilled judgment are required to single out the foundations. We have found cases where all four pages were retained in spite of instructions that pages 1 and 2 should be forwarded to Washington; we suspect that in other cases all four pages were forwarded, and the local office lacks its required record. In some instances foundations have filed only the Washington section, pages 1 and 2, apparently assuming that the near-duplicates 3 and 4 were intended for their own files. In nearly all cases the extremely informing lists of grants and similar data required in the original filing are not supplied in duplicate, so that the public copies lack this information. Finally, it is doubtful whether all foundations legally required to file these forms have done so; the penalty for such failure may be a fine of \$10,000 and imprisonment for a year, but few internal revenue offices are equipped for checking on receipt of returns.

American Foundations Information Service has attempted a national registry<sup>1</sup> based in large part on photographed copies of 990-A forms from all the 64 revenue offices, and other public documents. Helpful as this directory is, it does not contain recently established foundations except where the Service learned of their formation and was able to obtain records. Moreover, the immense labor of compilation was so time-consuming that this 1955 directory necessarily contains some relatively old material.

The Select (Cox) Committee, after its examination of the reporting and accountability situation, recommended amendment of the existing law concerning reporting, and appended to its report a proposed bill.<sup>2</sup> In addition to present provisions of Form 990-A this bill would remove confidentiality from contributions received during the year; would require "a complete list of all contributors and amounts contributed during the year

<sup>1</sup> *American Foundations and Their Fields*. 7th ed. American Foundations Information Service, New York, 1955.

<sup>2</sup> *Final Report of the Select Committee to Investigate Foundations and Other Organizations*. 82d Congress, 2d Session. House Report No. 2514, Government Printing Office, Washington, 1953, Appendix A, pp. 14-15.

where the amounts of such individual contributions exceed \$200.00"—but would keep this list confidential; and would require a breakdown of expenses to show "administrative overhead, including the annual salaries of any trustees, directors, officers or employees receiving more than \$4,000 per year"—this information also not to be made available to the public; and names and addresses of all "persons or organizations receiving grants during the year and the amount and general purpose of each such grant." Bills embodying these provisions have been introduced in the House of Representatives in 1953 and again in 1955.

Few of the larger foundations would object to these provisions. It has been their contention that the only form of control required is full reporting, and that "foundations should not only operate in a goldfish bowl—they should operate with glass pockets." Some of the smaller foundations, particularly those supported from current deductible contributions of individuals or privately owned corporations, have opposed public accounting on the grounds that it would embarrass them to let the public know what contributions were made from year to year (presumably indicating the amount of personal income or corporate net profit), and publication of grants would lead to multiplication of appeals for funds which they could not hope to meet. They argued that such public disclosure would result in abandonment of many existing small foundations and discourage formation of new ones. The Cox Committee nevertheless went on record for "full public disclosure . . . 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."<sup>1</sup>

Serious questions arise as to the effective use of these information returns within the government. More than 100,000 information returns from exempt organizations of all types are received each year. Only a fraction (perhaps a third) of these are organizations exempt under 501(c)(3) and again only a fraction (perhaps a tenth) of the latter are foundations within the definition of this

<sup>1</sup> *Ibid.*, p. 13.



study. But the Internal Revenue Service must handle them all, creating, said Mr. Sugarman to the Special (Reece) Committee:

. . . a tremendous task if we were to attempt to screen and examine every one of them. We nevertheless had a program of screening them, and examining as many as we were able to and referring to our field offices for direct field examination of those in which we found any questionable activities or financial items. So that our basic approach has been that through review of their returns, which includes the data as to receipts and disbursements, we would look for signs which would indicate the need for further investigation.

I might add that of course a considerable source of investigation and further study of these organizations is through our careful watching of published reports, including newspaper reports of activities and of course through complaints which we receive from time to time from taxpayers, from various other organizations, and I might say also through Members of Congress. . . .

MR. HAYS: You mentioned this morning, and I think you used the words, comparatively few foundations have strayed from the original purposes that they were set up for. Would you be able [to] . . . advise the committee how many have strayed? Maybe you have it right there.

MR. SUGARMAN: I think I can give you some information on that in regard to figures we collected for a prior period which I do not think is substantially different today. That is, in the 2-year period ending June 30, 1952, we had revoked the exemption during that 2-year period, not for all time, of 55 organizations that previously had been granted exemption in the category that we are talking about.<sup>1</sup>

It was apparent from this and other portions of the testimony that the Revenue Service is presently not equipped to handle this vast task except on a sampling and specific-complaint basis; that it has little relish for expanding operations in a field where additions to tax revenue are so unpromising; and that personnel, trained primarily as tax experts and accountants, are ill-suited to judging fine questions of philanthropy and public policy. Finally, even in the rare case of serious abuse, the penalties within the powers of the Internal Revenue Service are only removal of tax

<sup>1</sup> *Hearings Before the Special (Reece) Committee to Investigate Tax-Exempt Foundations, Part I, Testimony of Norman A. Sugarman, assistant commissioner of internal revenue. U. S. House, 83d Congress, 2d Session. Government Printing Office, Washington, 1954, pp. 436, 461.*

exemption, beginning in the year for which the offense was proved, and removal of tax-deductibility for future gifts of individuals to the offending organization.

The Internal Revenue Code does provide a national compulsory reporting system, but the system needs to be revised, its public information features broadened, and at least for the larger foundations, it needs to be supplemented by enlightened and complete voluntary reports.

### *Voluntary Reporting*

The practice of voluntary public reporting for foundations was initiated by the Peabody Education Fund set up in 1867, the first American foundation in the modern sense of that term. Trustees of the Peabody Education Fund published pamphlet reports of their Proceedings from the very first meeting, and in 1872 authorized making this material still more easily available through collection in a bound volume, with provision "for the printing of future Proceedings and Reports in conformity therewith." The resulting series of six volumes carry the records of the Fund from its organization in 1867 to its dissolution in 1914.

The trustees' attitude toward public reporting is expressed in a prefatory note to Volume I:

The Proceedings of the Trustees have been printed from year to year, and have been more or less widely circulated throughout the country. There was, however, a want of uniformity in the earlier pamphlets, while the number of copies printed was insufficient for the demand which has since arisen.

It has been felt that a great Trust of this sort should have a public and permanent record. It is due to the memory of its illustrious Founder, no less than to those who have been, or may be, entrusted with the administration of so large and signal an endowment, that the fullest information on the subject should be within the ready reach of all who are interested in it.

With this view, the present volume has been stereotyped; and it is intended that all the succeeding Reports and Proceedings shall be stereotyped to conform to it, so that a complete series may never be wanting to the Public Libraries of the country.<sup>1</sup>

<sup>1</sup> *Proceedings of the Trustees of the Peabody Education Fund from Their Original Organization On the 8th of February, 1867.* John Wilson and Son, Boston, 1875, vol. 1.

The John F. Slater Fund, established in 1882, followed this example. Said the donor in his Letter of Gift:

I desire that the doings of the corporation each year be printed and sent to each of the State Libraries in the United States, and to the Library of Congress.<sup>1</sup>

Annual reports to the public began with the first year after founding for a number of the larger organizations, including the Carnegie Institution of Washington, Carnegie Foundation for the Advancement of Teaching, Carnegie Endowment for International Peace, The Rockefeller Foundation. However, the General Education Board, established in 1903, began reporting in 1914; the Carnegie Corporation of New York, founded in 1911, issued its first annual report for 1921.

Reports are initiated for varied reasons. Many of them reflect a sense of responsibility to that general public for whose welfare the funds were donated. Several (the Year Books of the Carnegie Institution, for example) serve in part as records of scientific achievement for the information of interested workers in the field. A few, one suspects from the flavor of the writing, primarily seek honor and acclaim for the donor and his associates. One of the most useful ends served by detailed reporting of recent grants or activities is in guiding to the foundation persons needing grants, or having germinal ideas, in its fields of interest. Conversely, statements of areas of interest, plus in some cases specific prohibitions, help reduce the flood of inappropriate appeals. Such reports also serve other foundations and the whole world of scholarship as a partial index to current research and related activities, so that appropriate aid may be found and needless repetition be avoided.

Other foundations decline to issue reports for almost equally varied reasons. "A well-known Chicago trust," states Miss Taylor, "reported that trustees believed the publicizing of benefactions to be a vulgar appeal for recognition of 'good works.'"<sup>2</sup>

<sup>1</sup> Letter of John F. Slater dated March 4, 1882. Reprinted in *Southern Education Foundation Biennial Report for 1950-51-1951-52*, p. 100.

<sup>2</sup> *Public Accountability of Foundations and Charitable Trusts*. Russell Sage Foundation, New York, 1953, p. 115.

Embarrassment in revealing financial data on the part of small family or corporation foundations has already been discussed. Spivack reports the executive of one small nonreporting foundation as saying, "Why should a man stick his neck out, hanging up a sign inviting a lot of people he's never seen to come help make his life miserable?"<sup>1</sup>

Certainly, widely distributed reports encourage numerous appeals, many of which must be refused. Reports cost money, which must be taken from funds available for program. Moreover, preparation of a report is an arduous task. Granted complete agreement on the desirability of reporting, this task may be pushed steadily into the future by a stream of projects which seem more urgent.

Russell Sage Foundation is an example. Established in 1907, this Foundation early recognized the desirability of wide knowledge about foundations and their activities. Beginning in 1915, it published a series of bibliographies, expanding into directories, describing the activities of all foundations whose records were available. In 1917 the Foundation had in type a ten-year report of its own; but World War I scattered nearly all the staff to emergency duties, and when the war was over the material was old and was never printed. Meanwhile, as largely an operating agency, the Foundation was publishing four or five books and usually more pamphlets each year, presenting in great detail large segments of its program, but not as a collective picture. In 1946 the directories of foundations culminated in a substantial book, including observations on foundation practices, with this comment on reporting by the general director of the Foundation and the present writer:

Many foundations are careful to publish full reports of their activities; unfortunately another large group, including many of the newer family foundations, fail to do so. It is probable that increased pressure will be brought upon all foundations enjoying tax exemption to furnish full reports on both finances and activities. Unless informed public opinion is available as an effective control throughout the foundation field, renewed demands for rigid governmental

<sup>1</sup> Spivack, Sydney Shepherd, *op. cit.*, p. 62.



controls may arise, and foundations may lose one of their most useful present assets, their freedom for independent and pioneering action.<sup>1</sup>

At this point Russell Sage Foundation had not yet issued an annual report, but was preparing a comprehensive forty-year summary.<sup>2</sup> Annual reporting began with the 1947-1948 year.

Pressure for public reporting has increased with the years, and has been given special impetus by the two recent congressional investigations.

### *Current Reporting*

Table 29 presents data on foundation reporting available from our files or correspondence. No attempt has been made to record the single-sheet and often mimeographed reports of smaller foundations and trusts, though these may be quite appropriate for the scale of operations represented. Tabulated data on content relate to the most recent report in our files. A further description of these reports appears in the Bibliography, Part II.<sup>3</sup>

This table includes data on the reports of 107 "foundations," some of which are chiefly collecting organizations, for which reporting is also advertising. It is probable that the record is not complete, and it is known that a number of additional foundations are planning to issue reports in the future. Of the 77 larger foundations used in the scientific research tabulations, 28, or 36 per cent, issue reports at least biennially, usually annually, and in two cases (The Rockefeller Foundation and the Carnegie Corporation of New York) with quarterly supplements. One foundation, earlier reporting annually, ceased reporting in 1916.

The reports vary in length from the single-page statements, which we do not tabulate, to such massive volumes as The Rockefeller Foundation's 439-page 1954 *Annual Report*, which is a model of thoroughness. By illustrations, charts, and similar devices a growing number attempt to interpret their activities to a wider

<sup>1</sup> Harrison and Andrews, *American Foundations for Social Welfare*, p. 99.

<sup>2</sup> Glenn, Brandt, and Andrews, *Russell Sage Foundation, 1907-1946*. Russell Sage Foundation, New York, 1947. In two vols.

<sup>3</sup> See pp. 375-387.



public. In other cases the report is formal, directed to a limited professional audience in the field of the foundation's main concern.

As the table further shows, nearly all the reports handle adequately the matter of personnel, including trustees, officers, and professional staff. Descriptions of projects supported vary from a mere listing (and sometimes it is not clear that all are currently listed) to exhaustive discussions of each. Many reports are introduced by a general statement describing the purposes of the foundation and its current program emphases; in some cases an introductory essay surveys a whole field, or discusses a particular relation of the genus foundation to philanthropy.

No report we have examined includes a descriptive list of projects rejected, though a few give their number and the classes in which they fall. Persons charging favoritism in foundation grants have sometimes urged that such lists be required, and the Special (Reece) Committee did insist on foundations furnishing such data for its own files for certain years. But the case against public reporting of declinations is convincing. First, the sheer volume of declinations prohibits such a practice for all the larger foundations. Secondly, since simple refusal of ill-conceived projects rouses great resentment, public announcement of such refusals, even if expressed without value judgments, would add kerosene to an already vigorous blaze. Still more significantly, if a worthy project has to be refused because it is out of program or funds have been exhausted, the declination if publicly known would be generally interpreted as an adverse judgment on merit.

Financial data are less satisfactory in some reports. The statement of assets is sometimes given in terms of ledger value alone, which may be seriously misleading. Security holdings are sometimes listed, sometimes not; for a large foundation such a listing requires much space and is of concern to a minority of the report readers, but in the interest of full disclosure all holdings should be published periodically, if not annually. The Duke Endowment usually reports accumulated expenditures, so that annual expenditures can only be derived, and not completely, from comparison of successive reports.

TABLE 29. ANALYSIS OF VOLUNTARY REPORTS OF 107 FOUNDATIONS

Name	Date founded	Date of first report	Period of issue	Information included in report			
				Program	Personnel	Finances	
				B brief D detailed H historical I illustrated	T trustees O officers P professional staff	A administration B balance sheet C C.P.A. certificate G grants, amount of each I income account S securities list	
American Foundation for Political Education	1947	1952	A	D	T O P	A B C I	
American Fund for Public Service	1922	1923	C	B	T O	A B G I	
American-Scandinavian Foundation	1911	1912	A	D	T O P	A B G I	
Association for the Aid of Crippled Children	1900	1900	A	D I	T O P	B C G I	
Atkinson Charitable Foundation	1942	1950	A	D	T O P	A B C G I S	
Avalon Foundation	1940	1950 <sup>a</sup>	C	B I	T	A B C G I	
Belgian American Educational Foundation	1920	1922	C	B	T O P	A B C G I S	
Bickell Foundation	1951	1953	B	B	T O P	G	
Board of Directors, City Trusts, Philadelphia	1869	1869	A	D	T O P	B C G I S	
Bollingen Foundation	1945	1954 <sup>e</sup>	C	B	T O	B C I	
Buhl Foundation	1928	1942	C	H I	T O P	A B C G I	
Burke (Winifred Masterson) Relief Foundation	1902	1916	C	D I	T O P	b	
Carnegie Corporation of New York	1911	1921	A <sup>d</sup>	D	T O P	A B C G I S	
Carnegie Endowment for International Peace	1910	1911	A	D I	T O P	A B C I S	
Carnegie Foundation for the Advancement of Teaching	1905	1906	A	B	T O	A B C G I S	
Carnegie Hero Fund Commission	1904	1907	A	D	T O P	G	
Carnegie Institution of Washington	1902	1902	A	D I	T O P	B C G I S	
Carver (George Washington) Foundation	1940	1947	A	D	T O P	A B C I	
Chicago Community Trust	1915	1916	A	D I	T O P	B C G I	
Children's Fund of Michigan	1929	1930	A	B	T O P	B G I	
China Medical Board of New York	1914	1951	A	B	T O P	B C G I	
Church Peace Union	1914	1915	A	D	T O P	A B C G I	
Cleveland Foundation	1914	1926	A	D	T O P	B C G I	
Commonwealth Fund	1918	1919	A	D	T O P	A B C G I	
Conservation Foundation	1947	1949	A	D	T O P	A B C G I S	

Dodge (Cleveland H.) Foundation	1917	1950	C	B	T O	G
Duke (Angier B.) Memorial	1925	1951	C	B	T O	G S
Duke (Doris) Foundation	1934	1952	C	B	T O	I C
Duke Endowment	1924	1928	A	B	T O P	G
East European Fund	1951	1952	A	D	T O P	A B C G I
Edwards Scholarship Fund	1939	1946	C	B	T O	G
Falk (Maurice and Laura) Foundation	1929	1932	B	D I	T O P	B C G I
Farm Foundation	1933	1943	C	H I	T O P	<sub>b</sub> B C G I
Fels (Samuel S.) Fund	1936	1951	C	H I	T O P	A B C G I S
Field Foundation	1940	1949	A	D	T O P	B C G I
Ford Foundation	1936	1950	A	D I	T O	A B C G I
Foundation for Research on Human Behavior	1952	1953	A	D	T O P	A B C G I
Foundations' Fund for Research in Psychiatry	1953	1954	A	D	T O P	A B C G I
Fund for Adult Education	1951	1951	B	D	T O P	A B C G I
Fund for the Advancement of Education	1951	1952	B	D	T O P	A B C G I
Fund for the Republic	1951	1955	A	D	T O P	A B C G I
General Education Board	1903	1915	A	B	T O P	B C G I S
Georgia Warm Springs Foundation	1927	<sub>b</sub> 1927	A	B I	T O	A B C I
Grant Foundation	1936	1937	A	D	T O	B C G I
Guggenheim (John Simon) Memorial Foundation	1926	1926	B	D	T O P	A B I
Harrison (Thomas Skelton) Foundation	1919	<sub>b</sub> 1919	C	B	T	B C I
Hartford Foundation for Public Giving	1925	1951	A	B I	T	G
Hayden Foundation	1937	1951 <sup>f</sup>	C	H I	T	<sub>b</sub> B C I
Hazen (Edward W.) Foundation	1925	1930	B	D	T O P	A G I
Heinz (Howard) Endowment	1941	1950	C	H I	T O P	B G I S
Hill (Louis W. and Maud) Family Foundation	1934	1953	A	D	T O	A B G I
Indianapolis Foundation	1916	1927	A	B	T O	G I
Iran Foundation	1948	1949	B	D	T O P	A B G I
James Foundation of New York	1941	1952	A	B	T O	B C G I

TABLE 29. ANALYSIS OF VOLUNTARY REPORTS OF 107 FOUNDATIONS—(Continued)

Name	Date founded	Date of first report	Period of issue	Information included in report			
				Program	Personnel	Finances	
				B brief D detailed H historical I illustrated	T trustees O officers P professional staff	A administration expenditures B balance sheet C C.P.A. certificate G grants, amount of each I income account S securities list	
Kansas City Association of Trusts and Foundations	1949	1950	B	D	T O P	G	
Kellogg (W. K.) Foundation	1930	1951	A	D	T O P	A B C G I S	
Kift-Mullen Foundation	1949	1953	C	B	b	b	
Kosciuszko Foundation	1925	1927	C	D	T O	A B G I S	
Kresge Foundation	1924	1953 <sup>g</sup>	C	H I	T O	B C G I	
Lilly Endowment	1937	1950	A	D I	T O	A B C G I	
Macy (Josiah), Jr. Foundation	1930	1931	C	D I	T O P	b	
Markle (John and Mary R.) Foundation	1927	1935	A	H	T O	A B C G I S	
McCormick (Elizabeth) Memorial Fund	1908	1954 <sup>e</sup>	C	H	T O	A B C I	
McGregor Fund	1925	1937	C	D	T O	A B G I	
Mellon (A. W.) Educational and Charitable Trust	1930	1945	A	B	T O	B C G I	
Milbank Memorial Fund	1905	1921	B	B	T O P	A B C G I	
National Science Foundation	1950	1951	A	D I	T O P	B G I	
New Haven Foundation	1928	1936	A	D I	T O	B G I	
New York Community Trust	1924	1928	A	D	T O P	B G I	
New York Foundation	1909	1949 <sup>h</sup>	C	D	T O P	B G	
Nutrition Foundation	1941	1943	A	D I	T O P	G	
Old Dominion Foundation	1941	1950 <sup>a</sup>	A	B	T O	A B C G I	
Peabody Education Fund	1867	1867	A	D	T O P	G I S	
Permanent Charity Fund	1915	1918	A	D I	T O	B C G I	
Phelps-Stokes Fund	1911	1932 <sup>i</sup>	C	D	T O P	A B C G I S	
Philadelphia Foundation	1918	1944	A	B	T O	C G I	
Picker Foundation	1949	1951	A	B	T	B G	
Pitcairn-Crabbe Foundation	1940	1951 <sup>a</sup>	C	B	T O P	A B C G I	
Pittsburgh Foundation	1945	1946	A	D	T O P	A C G I	
Prentiss (Elisabeth Severance) Foundation	1939	1946	B	B	T	G	

Rackham (Horace H. and Mary A.) Fund	1934	1940	H	D I	T	A G
Research Corporation	1912	1950	A	B	T O	B C
Research Foundation of State University of New York	1951	1952	A	D	T	A B C
Rhode Island Foundation	1916	1934	A	D I	T O	B G I
Rockefeller Brothers Fund	1940	1953	C	B	T O	B I
Rockefeller Foundation	1913	1914	A <sup>d</sup>	D I	T O P	A B C G I S
Rockefeller (Laura Spelman) Memorial	1918	1923	A	D	T O	B G I
Rosenberg Foundation	1937	1947 <sup>a</sup>	C	D I	T O P	G
Rosenwald (Julius) Fund	1917	1936 <sup>i</sup>	H	D	T O P	B G I S
Sage (Russell) Foundation	1907	1947 <sup>h</sup>	A	D	T O P	A B C I S
Scaife (Sarah Mellon) Foundation	1941	1947	A	D	T O	B G
Schlieder (Edward G.) Foundation	1945	1950	A	D	T O	B G
Schurz (Carl) Memorial Foundation	1930	1931	C	D	T O	A B I
Slater (John F.) Fund	1882	1882	A	D	T O	G I
Sloan (Alfred P.) Foundation	1934	1938	B	D	T O P	B C G I S
Smith Charities	1848	1848	A	B	T	B G
Southern Education Foundation	1937	1952	B	D	T O P	B G S
Spelman Fund of New York	1928	1930	B	D	T O P	B G I
Trexler Foundation	1933	1945	C <sup>j</sup>	D	T	B C G I
Twentieth Century Fund	1919	1931	A	D I	T O P	A B C G I S
Watumull Foundation	1942	1948	B	B	T O P	<sup>b</sup>
Wenner-Gren Foundation	1941	1942	A	D I	T O P	A B C G I S
Whitney Benefits	1927	1928	A	B	T O	A B G I
Whitney (Helen Hay) Foundation	1947	1949	B	D	T O P	B C G I
Whitney (William C.) Foundation	1936	1942	B	B	T O	G
Wieboldt Foundation	1921	1922	A	D	T O	B C G I
Woodrow Wilson Foundation	1922	1942	B	D	T O	B G I

SOURCE: Russell Sage Foundation files and correspondence.

<sup>a</sup> Ten-year report.

<sup>b</sup> No data.

<sup>c</sup> Eight-year report.

<sup>d</sup> Also a quarterly report.

<sup>e</sup> Eighteen months.

<sup>f</sup> Fifteen-year report.

<sup>g</sup> Thirty-year report.

<sup>h</sup> Forty-year report.

<sup>i</sup> Twenty-year report.

<sup>j</sup> Twelve- and ten-year reports.



Administrative expenditures are apparently a tender point. It is alleged, not without justification, that the general public has little appreciation of the need of a large foundation, if it is to be effective, for professional staff of high caliber, advisory service of various sorts, and skilled legal and investment counsel; moreover, for the foundation of moderate size such costs run into percentages necessarily above those of foundations with very large income. We nevertheless think that administrative expenditures should be revealed in reasonable detail, even at the cost of some temporary public misunderstanding.

At appropriate intervals such as ten, twenty, sometimes forty years, many foundations issue a larger report in the nature of a summary history for the whole period. The bibliography of foundation reports indicates such special issues where we were able to identify them.

For foundations unwilling or unable to assume the substantial costs of report preparation, publication, and distribution, partial substitutes are available through furnishing mimeographed reports to board, grantees, applicants, other interested individuals, and the local press; or through supplying periodic data to such reporting services as American Foundations Information Service, learned journals in the appropriate fields, and the like.

### *Distribution and Costs*

The labor of preparing and publishing a report may be largely lost if adequate distribution is not obtained. Adequacy varies with the nature and purpose of the report. A minimum distribution program might include trustees and officers, grantees, recent applicants or correspondents, foundations in the same field or geographical area and the national foundations that keep information files, the local libraries, the local press. The foundation making grants in a specialized field should add the leaders in that field and perhaps all members of its professional association, if not too large. Since so many foundation grants are channeled through colleges and universities, it is obvious that their libraries, central offices, and heads of related departments should have a high priority in distribution lists.

Larger foundations greatly extend their lists for reports, and may also prepare news releases summarizing them, which through the press may reach most of the general reading public. The Carnegie Corporation, for example, distributes about 11,000 copies of its annual report. Its mailing list includes all the major public and academic libraries; college presidents, deans, and professors; and at least two thousand interested individuals outside the academic professions, including college trustees. The President of the Corporation told the Select (Cox) Committee that the Corporation was working constantly to build up its mailing list and that anyone who expressed any interest in its work received its reports. In 1953 the Corporation initiated a quarterly report which goes to the same list as the annual report. The combined cost of printing and distributing these publications is approximately \$17,500 annually; and there is, of course, the considerable additional cost of staff time to prepare them.

Concerning the reporting practices of the John Simon Guggenheim Memorial Foundation, Henry Allen Moe testified to the same Committee:

We not only publish a biennial report, but whenever we have made a series of fellowship grants, we send a list with some explanation of each grant to every daily newspaper in the country, and some weeklies, and then we get up a printed list of these grantees which we send to all the persons who were applicants for fellowships, in addition to those who got the fellowships, and this printed list is distributed in quantities of about 12,000 every year.

So we are constantly several times in the course of the year, whenever we make a series of grants, informing the public of them, and then we summarize it all with biographies and so on and so forth biennially in our thick reports.<sup>1</sup>

In a written statement to the Special (Reece) Committee Joseph E. Johnson testified for the Carnegie Endowment for International Peace that they were currently distributing over 4,000 copies "to libraries, colleges and universities, newspaper and radio stations, organizations and individuals concerned with

<sup>1</sup> *Hearings*, pp. 620-621.

international relations, and to all the Members of the Congress of the United States.”<sup>1</sup>

The Chicago Community Trust has issued a report every year since the Trust was established, the reports going recently to some 10,000 individuals. In addition, Section 6 of its Declaration of Trust requires that a certified statement showing receipts, disbursements, and investments shall be published in two Chicago newspapers of general circulation.

The Rockefeller Foundation distributes a variety of reports widely and at heavy cost, as outlined by its president, Dean Rusk, to the Select (Cox) Committee:

The 1951 annual report is this fairly substantial document here [indicating]. It contains in it, as an introductory section, what is called the President's Review, which is also published separately for the convenience of those interested primarily in the President's Review.

The President's Review tries to set forth the comments and observations which the President might have on new developments in the fields of science and scholarship during the year, to review somewhat the rationale underlying the work of the foundation, and to try to explain the program of the foundation itself in its broader aspects, rather than in terms of detailed grants.

We have found that there is a very considerable demand every year for that President's Review. As a matter of fact, we have been publishing 100,000 copies of that review in English, with 1,800 in French, 3,500 in Spanish, 1,500 in Portuguese, and the publication of that President's Review has been costing us between \$20,000 and \$25,000 a year.

The annual report is published at the rate of about 10,000 copies a year, 10,500 this year, and 8,500 the year before; somewhat less earlier. That costs us \$12,000 or \$13,000 to do that.

In addition to that, the international-health division published reports on the scale of about 6,000 copies. We put out a little purpose and program folder which we use to give people who want to know generally what the foundation is trying to do and what its program is.

We make quarterly reports in addition to the annual report, reporting the appropriations and grants made during that quarter. This has been a fairly recent development since 1950, because we

<sup>1</sup> "Statement of Joseph E. Johnson, President, Carnegie Endowment for International Peace" in *Hearings Before the Special (Reece) Committee*, Part II, 1954, p. 1060.

felt that it would be better to get our major appropriations out before the public early rather than wait until maybe 15 months might have passed when they would appear in our annual report.

In addition to that, the foundation published in 1952 its fellowship directory, at a cost of \$36,000; and we publish reports on special items, such as the Mexican agricultural program, yellow fever, and, of course, [Mr. Fosdick's] recent history on the Rockefeller Foundation itself.<sup>1</sup>

At present no central depository exists where interested persons may examine the reports of all the foundations. This lack is recognized, and plans are now going forward for the creation of such a depository and information center, under foundation auspices.

### *Results of Reporting*

Looked at in terms of the whole foundation field, adequate public reporting is characteristic chiefly of the larger foundations and by no means universal among them. The practice is improving and spreading. Indeed, only a few specialists are now able to assemble and reasonably digest the reports already issuing in the mounting paper flood. Adequate reports from all foundations of substantial size would not proportionately increase public understanding and acceptance; more reports now appear than the general public can consume or desires to see. But each foundation has interest groups of its own, and perhaps a geographical centralization. These groups need to be informed of its activities; when this is widely possible, public understanding will be much advanced.

The practice of reporting evidences a sense of public responsibility. True, the foundation that has something to hide cannot at present be forced to make full voluntary reports; but if well-run foundations issue such reports as a regular practice, absence of reporting will itself become a significant danger signal. Public reporting is a tool for self-regulation not without some power over even the nonreporting organization.

<sup>1</sup> *Hearings*, pp. 501-502.

The cost and nuisance of preparing reports is sometimes more than compensated by advantages within the foundation. Says Sydney Spivack:

The decision to publish represents a powerfully implied decision to plan. It imposes the need to think ahead to the long-term implications of one's operations. "How is this going to look" is another way of asking "what are the consequences going to be?"<sup>1</sup>

The same writer cites one foundation which made grants to an average of 48 organizations in the three years preceding the instituting of annual reports; to an average of 10 during the first three years after reporting began. Reporting may result in more careful judgments and wiser long-range planning.

Of course, detailed reporting does lay the foundation open to additional appeals for funds and to criticism from the many readers of such reports who are certain they could have invested or disbursed the funds to better advantage. Ralph Hayes, director of the New York Community Trust, writes:

From time to time we review the advisability of continuing to publish an itemization of all outpayments. Up to now we have convinced ourselves of its desirability though each year we take a serious beating, by mail, after its appearance. An extraordinary number of organizations, finding themselves unlisted as payees, write in high dudgeon or deep agony to learn the reason for the discrimination. The only people who seem to feel worse are those who *do* find themselves on the list but who deem the amount received grossly inadequate by comparison with some other organizations!<sup>2</sup>

### *General Publicity*

A few foundations consciously cultivate public notice. Their annual reports are digested for the press and radio stations; elections to the board of trustees are made the subject of news releases, with photographs; any substantial grant is widely heralded when voted, its progress is noted, and its results are the subject of further publicity. Efforts are made to have the foundation name carried in connection with speeches, committee mem-

<sup>1</sup> *Op. cit.* (ms.), p. 56.

<sup>2</sup> Letter from Mr. Hayes to the author dated July 20, 1955.



berships, or special activities of any persons on the staff or temporarily connected with the foundation. One or more members of the staff are public relations specialists. Such programs are supported in the belief that if the work of the foundation and the projects it assists are to carry weight with the general public, the name of the organization must be widely and favorably known.

Other foundations as definitely avoid the glare of publicity. One of them states that its "officers and staff are not encouraged to make speeches, write articles, or play conspicuous roles at public functions, or to accept fees on any such occasion." One of the purposes of such reticence is to avoid the piling up of grant requests.

The majority of the larger foundations strike a course between these extremes. They issue reports, acknowledge grants when made but do not publicize them, and usually let results speak for themselves. Recent evidence of wide public misunderstanding of foundations has caused some rethinking of the policy of reticence, but no general trend is discernible. Responsibility for dissemination of research findings is a more serious question than publicity for the foundation itself.

### *Dissemination of Research Findings*

It has been pointed out that a few foundations concern themselves primarily or wholly with dissemination of knowledge already won, or promotion of a particular doctrine in religion, economics, or some similar field. Indeed, publishing itself may be a major activity, as with the Bollingen Foundation sponsoring the Bollingen Series which includes original contributions, translations of works not elsewhere available in English, and new editions of the classics. Many more foundations face the difficult problem of deciding how much of their funds, and perhaps staff efforts, should go into dissemination of the findings that result from research they have financed.

First is a question of propriety. Even if the project was wholly financed, and may have been originally suggested, by the given

foundation, it is necessary to comment, as did The Rockefeller Foundation—

. . . on the delicate question of claiming credit, on behalf of a philanthropic foundation, for work which is accomplished with foundation assistance. The Rockefeller Foundation has been reluctant to seek or to claim credit and would deeply regret any necessity for doing so by way of self-justification. The Foundation has sought to promote the well-being of mankind throughout the world; in doing so, it has sought ways and means of giving aid and encouragement to others who have the ability and the opportunity to accomplish significant things. The Foundation can use its funds to help construct a giant telescope, but it is the genius of the men who know how to use the instrument which pushes back the frontiers of human knowledge. We can provide funds for fellowships, but it is the high quality of the work of the fellows themselves which measures the contribution to the well-being of mankind. . . . In the vast majority of cases, the Foundation has contributed funds, and occasional advice; the credit more properly belongs to others. While the Foundation accepts full responsibility for its own actions, it does not wish to assert claims of a sort which would not accord with the spirit of our collaboration or with the tradition of modesty wisely established by our founders and past leaders. We are ready to state what we have done, but much of the assessment of its worth must be left to others.<sup>1</sup>

After propriety comes the question of use of funds for dissemination. This subject has already been briefly discussed.<sup>2</sup> In general, there are three possibilities.

The foundation may decline as a matter of regular policy to assist financially in the dissemination of research findings. This is on the "better mousetrap" principle that any notable discoveries will somehow find their own way to those concerned, or it may have been adopted on the advice of lawyers, wary of the "propaganda" clause in the Internal Revenue Code. This policy is definite, simple, legally prudent, and economical. It may result, however, in loss or long-delayed use of valuable findings in which original investment, both of foundation funds and of creative effort, was substantial.

<sup>1</sup> The Rockefeller Foundation, *Answers to Questionnaire*, pp. 78-79.

<sup>2</sup> See pp. 226-227.

The foundation may include in the original grant a publication appropriation wherever the nature of a project makes dissemination important. This concludes the matter with one vote, is administratively simple, and is an earnest of good faith; whatever the findings may turn out to be, money for their dissemination has been provided. But it may also be wasteful. Many hopeful projects are never brought to completion, or are done so poorly that results were better left unpublished.

The foundation may reserve decision, indicating the possibility of additional funds for publication and dissemination if the project turns out well. This has many advantages, but it places upon the foundation the onus of judging the worth of the project as it nears completion. If the additional grant is made, it may be charged that the grantee was under heavy influence to produce findings acceptable to the foundation. If the grant is not made, the grantee is certain to consider that not his work, but the foundation's judgment, was at fault. In either event the foundation may be considered responsible for not merely the original grant, which in effect reports a subject as worthy of investigation, but for evaluation of the findings. Said the Special (Reece) Committee:

In 1934 no congressional investigations had mentioned the name of Professor Robert A. Brady, and the Foundation cannot be held accountable for making the initial grant. However, once the manuscript of the book had been read and its theme demonstrated, this Committee is of the opinion that no justification of further grants to this individual can be advanced by the Carnegie Foundation for the Advancement of Teaching. The "acknowledgments" in Brady's *Business as a System of Power*, published in 1943, recites that his work was made possible by a Carnegie grant in 1934; it also states that a "more recent grant . . . makes possible prompt publication of this book by the Columbia University Press. I am deeply grateful not only for the financial assistance given by the Foundation, but also for the keen and sustained interest of Dr. Frederick Keppel and his associates in the work as it has been developed." Dr. Keppel was President of the Foundation.<sup>1</sup>

<sup>1</sup> *Report of the Special (Reece) Committee to Investigate Tax-Exempt Foundations*, 83d Congress, 2d Session. House Report No. 2681, Government Printing Office, Washington, 1954, pp. 117-118.

The Reece Committee named the wrong foundation; it was the Carnegie Corporation of New York that provided both the initial grant for research and the publication subsidy. The Corporation's position, and its procedure in this particular instance, are worth full statement:

The Corporation takes the position that it should not censor a scholarly manuscript by withholding publication subsidy solely on the grounds that the views of its officers do not coincide with those of the author.

In the case of the Brady manuscript, the Corporation's files show that the officers were fully aware that the book was critical of the American business system and that it was a highly controversial work. They recognized the wide divergence between their own views and those expressed by Professor Brady. Nevertheless, they tried to determine whether or not, quite apart from the conclusions of the author, this was a sound piece of scholarship. They sent the manuscript to a number of outside readers, making sure that viewpoints opposed to those expressed by the author were well represented among those readers. The general conclusions reached by those who reviewed the manuscript, with only one or two exceptions, was well summed up in a statement written by a nationally prominent economist whom the Corporation consulted. He considered the study altogether worthy of publication "although I disagree with several of the author's more important conclusions and some of his more obvious biases." The outcome was that the Corporation officers decided to follow the advice of the readers who, although diverging widely from Professor Brady in their views, thought that the manuscript was a scholarly work of sufficient merit and interest to warrant publication.<sup>1</sup>

Obviously, if foundations support research or activities in controversial fields, they must be prepared to endure criticism—usually from both sides. Publication subsidies, particularly if they are granted after a look at the nearly completed job, may heighten such criticism; but the absence of such subsidies would not avoid it. Indeed, foundations were even roundly criticized by the chairman of the Special (Reece) Committee for what they did not do, their alleged failure to finance "studies regarding the excellence of the American Constitution, the importance of the

<sup>1</sup> Statement submitted to the writer.



Declaration of Independence, and the profundity of the philosophy of the Founding Fathers.”<sup>1</sup>

### *Publication Programs*

A few foundations, chiefly of the operating type, go farther than subsidy in the publishing process. They issue the findings themselves under their own imprint, either by an arrangement with a commercial publisher or a university press, or through a publication division set up within their own organization.

The Bollingen Foundation, already mentioned, issues its Bollingen Series through Pantheon Books, a commercial publisher. The Ford Foundation established Intercultural Publications, Inc., in 1952, which produces a quarterly magazine, *Perspectives, USA*, in simultaneous American, English, French (*Profls*), German (*Perspektiven*), and Italian (*Prospetti*) editions, presenting contemporary American arts and letters to readers abroad with a view to better understanding among the peoples of the world through exchange of ideas. Payments for this activity amounted to \$200,000 in 1953, \$100,000 in 1954.

Russell Sage Foundation and the Twentieth Century Fund, both operating foundations, maintain full publication departments of their own. After research studies are completed, the manuscripts are edited, books designed, contracts made with printers, proof read, advertising and mail campaigns prepared, booksellers are visited, and all processes of publishing and sale including shipping are performed within the foundation offices. Brookings Institution follows a similar pattern, as do several smaller foundations with highly specialized publications.

The Carnegie Endowment for International Peace, in addition to its periodical *International Conciliation*, issues various book publications; since 1952 Columbia University Press has been sales agent for these publications. The Commonwealth Fund sponsors publication of a limited number of books and pamphlets, usually originating in work the Fund has helped support. Commonwealth Fund books are published by Harvard University Press,

<sup>1</sup> *Hearings Before the Special (Reece) Committee, Part I*, p. 29. See also p. 202 in this book.



but the Fund's own division of publications provides editorial service and cooperates in their design and distribution.

Foundations maintaining full publishing operations do so in the belief that the editing and processing of studies within their own offices improve the product; that through specialized knowledge of the field they are able to achieve a wider and more effective distribution than could a commercial publisher or university press with many other interests to serve; and that they gain knowledge useful for further programs in the same areas through review opinions, correspondence, and contacts with users of the studies.

Nearly all foundation studies are of a specialized nature, of interest only to a limited audience, with usually no possibility of paying their costs on a commercial publishing basis. Thanks to support by a subsidy or publication by the foundation itself, however, these books usually are moderately priced. The policy of several of the foundations publishing their own books is to realize from their sale only the actual cost of manufacture. Free distribution is sometimes attempted, and for a single publication may cost little more than publications "sold" at prices approximating cost plus charges for mail campaigns and advertising. But continued free distribution becomes wasteful, building up large complimentary lists of dubious value. Moreover, a free publication may receive less attention even from persons concerned with the subject than one ordered and paid for by themselves.

### *Other Educational Efforts*

Even in this age of radio, television, and life on wheels and in the air, the printed word remains the keystone of communication. But for special purposes other media are also useful, and sometimes more effective; and foundations use them. Office consultation, correspondence, public addresses, magazine articles, news releases, attendance at conferences, radio and television appearances, slide films, documentaries, discussion groups, these are among the avenues to wider public understanding some of the foundations employ. As one of them put it, the foundation should

have a total concern for conveying to the public the contents of research findings in whatever forms prove most effective, and should be willing to explore new methods to this end.

Of course, money or efforts expended on dissemination are not available for original research. A balance must be struck, and administrative practice varies widely on the proportions. A former official of the Twentieth Century Fund once expressed the opinion that expenditure of fully half the Fund's income on dissemination would be an efficient use of funds. Most of the general research foundations, including the Twentieth Century Fund, would go less far than this, and a few of them make no dissemination expenditures.

In addition to support for dissemination of findings, some foundations grant funds for investigating and improving the processes of dissemination themselves. An important phase of the program of the Fund for Adult Education is related to this area. One of its projects involves proffered grants of \$100,000 to \$150,000 to assist in construction of educational television stations in selected metropolitan and university centers, provided the communities raise two-thirds of the total necessary for initial capital outlay.

### *Propaganda and Tax Exemption*

A narrow line exists between furnishing objective information and attempting to influence opinion. If facts are presented selectively, or slanted, or contrary facts are suppressed, the line has been crossed; and since foundations always act through persons, this may be done as a result of unrecognized bias and without intention. But even the fairest and most objective presentation of facts on a question of public interest is certain to influence public opinion. Indeed, Hollis pointed out nearly two decades ago that trustees "who are afraid of being accused of seeking to influence public opinion run the risk of supporting sterile, academic, fact-finding, 'safe and useless' projects."<sup>1</sup> However, programs influ-

<sup>1</sup> Hollis, Ernest V., *Philanthropic Foundations and Higher Education*. Columbia University Press, New York, 1938, p. 97.

encing opinion, when they go so far as to affect legislation, run certain tax hazards.

The Revenue Act of 1934 denied tax exemption to organizations of the foundation type where a "substantial part of the activities of which is carrying on propaganda, or otherwise attempting, to influence legislation." This wording has been carried in all subsequent revisions, and appears in the Internal Revenue Code for 1954, sec. 501(c)(3). This provision is sometimes carelessly read and interpreted as prohibiting foundations from engaging in any public education that could be interpreted as propaganda. The point was fully discussed in the Special (Reece) Committee hearings; the more pertinent comments of Mr. Sugarman on this point are here set down:

The courts indicated that while normally provisions exempting taxpayers from tax are to be strictly construed, the exemption under section 101(6) is to be liberally construed. The Supreme Court in *Helvering v. Bliss* said, in 1934,<sup>1</sup> that the provisions granting exemption of income devoted to charity are liberalizations of the law in the taxpayer's favor, were begotten from motives of public policy, and are not to be narrowly construed. This approach appears to have dominated judicial thinking in this area. . . .

The committee reports and the language of the 1934 Act establish that the words "carrying on propaganda" do not stand alone but must be read together with the words "to influence legislation." Thus the law expressly proscribes only that propaganda which is to influence legislation.

Moreover, the statute does not deny exemption to organizations any part of whose activities is carrying on propaganda, or otherwise attempting to influence legislation, but only to organizations, a substantial part of whose activities is of this nature. . . .

The 1934 amendment to the law by which were added the words "and no substantial part of the activities of which is carrying on propaganda, or otherwise attempting, to influence legislation," indicated an awareness by Congress of the tenor of the court decisions already discussed, and by indirection, a reluctance to hold the line on the basis of the narrow interpretation by the Service of the 101(6) educational exemption.

Congress saw fit only to circumscribe the exemption with a restriction against substantial activities to influence legislation. The

<sup>1</sup> 293 U. S. 144.

committee reports show that as first proposed, the 1934 amendment to the statutes read "and no substantial part of the activities of which is participation in partisan politics or in carrying on propaganda, or otherwise attempting, to influence legislation."<sup>1</sup> The words "participation in partisan politics" were stricken from the bill, as enacted. All this reasonably leads to the conclusion that the Congress at that time was reluctant to require a narrow application of section 101(6) as to "educational" organizations as the Service had at first attempted.

In 1940, the court of appeals for the first circuit held that contributions to the Birth Control League of Massachusetts, affiliated with the American Birth Control League, were deductible after the organization had abandoned any legislative activities.<sup>2</sup>

On the basis of these judicial precedents, we must conclude that it is now reasonably established under the law that an organization may have as its ultimate objective the creation of a public sentiment favorable to one side of a controversial issue and still secure exempt status under section 101(6), provided it does not, to any "substantial" degree, attempt to influence legislation, and provided further that its methods are of an educational nature. . . .

MR. KOCH. On this business that a substantial part must be used, if a certain person whom I won't mention, but who is sitting in this chair, paid \$10,000 for propaganda, I assure you that would be very substantial. But take a \$100 million foundation, if they spent \$10,000 on propaganda, would you say because of the relative importance or the relative degree that that is substantial in my case or in this man's case and not substantial where the company has \$100 million of assets, and maybe \$30 million of income, or \$3 million?

MR. SUGARMAN. As I indicated before, I don't think we can decide that question by purely dollar amounts. For example, if that \$10,000 were spent for telegrams to members of Congress, that might be substantial. . . .

MR. HAYS. That leads us into a rather interesting situation. You use the word "propaganda" and the law uses the word "propaganda" and the committee here has used the word "propaganda" and various witnesses. I wonder just what is propaganda. It is conceivable that the word might mean different things to different people, isn't it?

MR. SUGARMAN. That is correct. As I indicated at the earlier stages the Revenue Service at one time attempted to draw a line between propaganda and education by indicating that organizations engaged in disseminating knowledge or their views on controversial

<sup>1</sup> S. Rept. No. 558, 73d Cong., 2d sess., p. 26; C. B. 1939-1 (pt. 2) 586, 606.

<sup>2</sup> *Faulkner v. Commissioner* (C. C. A. 1, 1940, 112 F. (2d) 987).



subjects may be engaged in propaganda and not entitled to exemption. The courts felt we should not draw that line into the statute. For that reason, organizations of that sort may now be granted exemptions under the existing judicial precedents.

I think that propaganda problem is one that we pretty well leave alone in the sense that in this area, like many others, we find that attempts to define terms do not help us particularly when we get to actual cases. For example, the matter of sending telegrams to members of Congress to vote a particular way is a pretty concrete example of what we would consider propaganda to influence or otherwise attempting to influence legislation. We can spot that type of activity without worrying about whether it comes under some precise definition of propaganda.<sup>1</sup>

Several foundations have run into difficulties under the legislative propaganda provision. Before passage of the more specific legislation in 1934, the World Peace Foundation in 1925 was denied tax-exempt status on the ground that its activity in distributing League of Nations publications constituted dissemination of "partisan propaganda"; the order was rescinded in 1928 on the ground that the Foundation was in fact engaged in educational work. The difficulties of the Robert Schalkenbach Foundation have already been detailed.<sup>2</sup> The Twentieth Century Fund was denied deductibility on contributions to the Fund in 1935 because of its contributions to the Credit Union National Extension Bureau and appearance of representatives of the Fund before congressional committees in 1934 and 1935, but retained tax exemption on its own income as a "civic league or organization" under Section 101(8); full exemption including deductibility of contributions was restored in 1936.

Most foundations carefully avoid direct efforts to influence legislation, some of them making it a policy not to send unrequested publications to members of Congress nor to appear before legislative committees except on specific invitation. A letter to the *New York Times* from a former foundation official called this tax provision "one of the chief barriers to social reform" and

<sup>1</sup> *Hearings Before the Special (Reece) Committee, Part I, Testimony of Norman A. Sugarman, assistant commissioner of internal revenue, pp. 429, 430, 433, 442, 451.* The full section should be read for illustrative cases and further discussion.

<sup>2</sup> See p. 54.



pointed out the irony of the fact that any attempt by foundations to have this situation changed would itself constitute an attempt to influence legislation and jeopardize their exemption.<sup>1</sup>

A foundation deeply committed to a program requiring legislative action, and feeling that its own active support was essential, could forego tax-exempt status for a period of years without significant reduction in income if it became a fully operating foundation and spent its whole income on activities consonant with its charter; it would then have no profits on which a profit tax could be levied.

<sup>1</sup> Letter from Evans Clark, formerly executive director of the Twentieth Century Fund, *New York Times*, February 15, 1954.

## Trends and Prospects

PROPHECY may be labeled a hazardous occupation, and when the subject concerned is young, developing, and dynamic—as are foundations—the hazard is multiplied. This chapter attempts only to identify present trends and to suggest some possibilities if certain conditions are met.

### *Future Large Foundations*

During the last twenty-five years it has been widely proclaimed that the day of creating large foundations was over. In the first part of this period, the depression was wiping out all great fortunes; later, high taxes were alleged to be making substantial accumulations impossible. The facts scarcely support these opinions:

#### Number of Foundations with Assets of \$50 Million or More

1930	4
1944	5
1953	14

It is true that in terms of million-dollar incomes, those magical and untypical years 1928 and 1929 have never been equaled, as Table 30 and Chart 9 indicate. But in those years the contribution rate was relatively low; the 513 recipients of million-dollar incomes in 1929 had an aggregate net income of \$1,212 million, from which they gave to all charitable causes a reported \$49.5

million, at a rate of 4.1 per cent. In 1952, the latest year for which charitable contributions are available from income-tax reports, the 146 persons with incomes of one million or more who itemized deductions (two did not) had aggregate income of \$287 million, out of which they gave \$32.9 million, at a rate of 11.5 per cent. In many instances this more liberal recent giving has been channeled into foundations in accordance with the new pattern of annual gifts.

TABLE 30. NUMBER OF FEDERAL INCOME-TAX RETURNS WITH INCOME OF \$1,000,000 OR OVER, BY YEARS, 1914 TO 1952

Year	Number	Year	Number	Year	Number	Year	Number
1914	60	1924	75	1934	33	1944	62
1915	120	1925	207	1935	41	1945	71
1916	206	1926	231	1936	61	1946	94
1917	141	1927	290	1937	49	1947	114
1918	67	1928	511	1938	57	1948	149
1919	65	1929	513	1939	45	1949	120
1920	33	1930	150	1940	52	1950	219
1921	21	1931	77	1941	57	1951	171
1922	67	1932	20	1942	40	1952	148
1923	74	1933	50	1943	55		

NOTE: Because of changes in classification procedure, the "income" is net income through 1943, adjusted gross income thereafter; fiduciary returns are included through 1943.

SOURCE: *Statistics of Income*, U. S. Treasury Department.

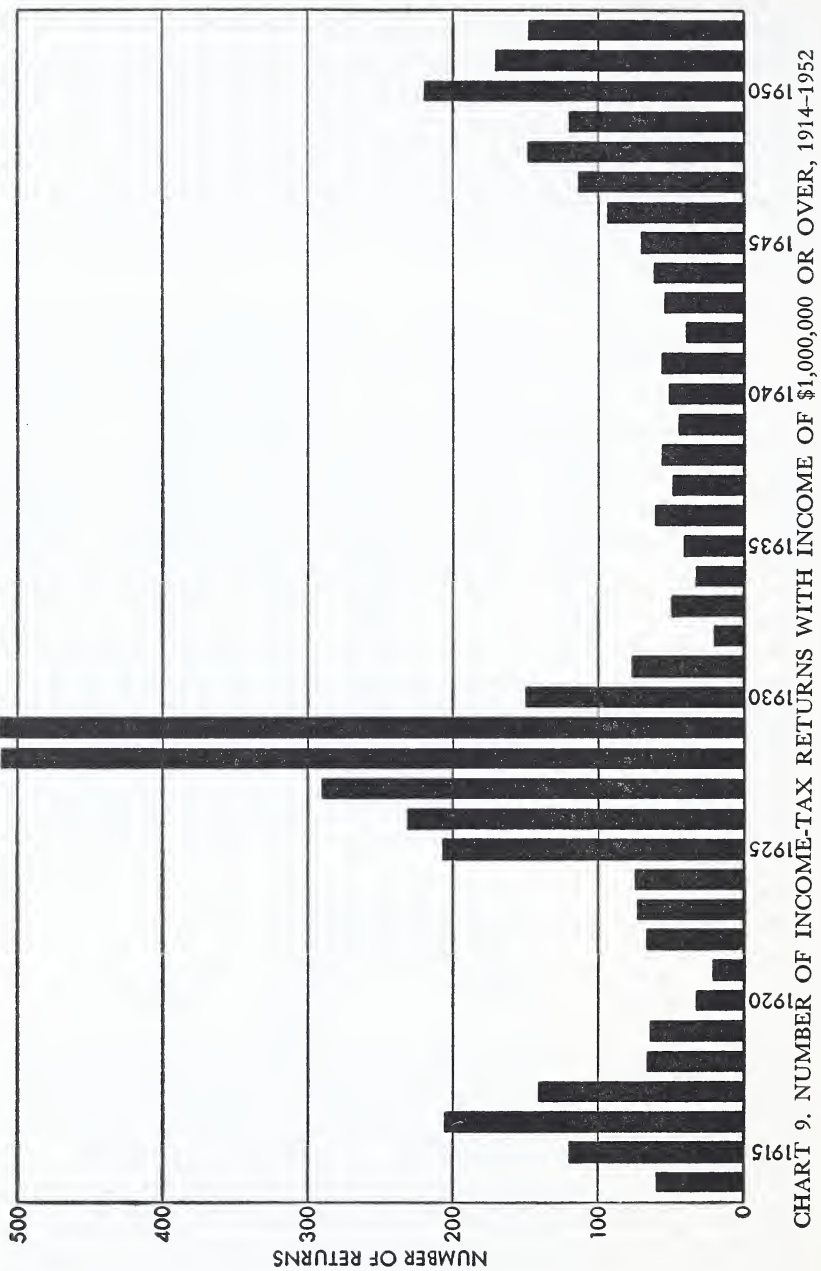
At the \$100,000 a year income level, even the 1928-1929 peak falls below the recent record.

Number of Incomes of  
\$100,000 or More

1928	15,977	1951	20,655
1929	14,816	1952	17,877

These figures do not take into account the altered value of the dollar, growth in population, and effects of increased taxation in reducing "disposable" personal income. All these factors are reflected in Table 31, which covers the whole population.

In the total picture, income in the United States has shown remarkable growth in the past quarter century, even when adjusted to population increase, a constant dollar, and the impact of taxes.



For the high-income groups from whom funds for foundations have chiefly come, present steep federal tax rates (reaching 91 per cent for portions of taxable income in excess of \$200,000 at 1954 rates) have diverse effects. The tax reduces the amount of income that can be accumulated, though not as sharply as is usually supposed.<sup>1</sup>

TABLE 31. PERSONAL INCOME AND DISPOSABLE PERSONAL INCOME AT CURRENT AND 1950 PRICES, IN SELECTED YEARS

Year	Personal income (billions)		Per capita personal income		Per capita disposable personal income	
	Current prices	1950 prices	Current prices	1950 prices	Current prices	1950 prices
1929	\$ 85.1	\$120.2	\$ 700	\$ 990	\$ 680	\$ 960
1933	46.6	91.9	370	730	360	710
1943	150.3	204.8	1,100	1,500	970	1,320
1953	284.5	254.0	1,780	1,590	1,550	1,390
1960	—	282.0	—	1,590	—	1,440

SOURCE: Dewhurst, J. Frederic, and Associates, *America's Needs and Resources*, Twentieth Century Fund, New York, 1955, p. 89. The 1960 figures are projections explained in this volume. Per capita income figures are rounded to the nearest \$10.

On the other hand, the 91 per cent tax liability (at 1954 rates) on the top portion of very large incomes encourages such persons to make generous donations to charitable causes, including foundations. The net cost to them is only 9 cents on the dollar up to the deductible limit, which was raised to 30 per cent by the 1954 Revenue Act provided at least 10 per cent is donated to churches, hospitals, or educational institutions. Moreover, a few of these persons qualify for unlimited deductibility of contributions under Section 170(b)(1)(C), where in general contributions plus tax paid have exceeded 90 per cent of taxable income for 8 of the 10 preceding years. Tax advantages to be derived from contributions have been discussed in more detail in Chapter 2<sup>2</sup>; the point here is simply that the present tax structure is in some respects favorable to the multiplication and enlargement of foundations.

<sup>1</sup> Gifts, inheritances, bequests, interest on state and municipal bonds, and some other items are not taxed to the recipient, nor reported as income. On the reported adjusted gross income of the 148 individual million-dollar incomes of 1952, tax liability averaged out at 62.3 per cent of adjusted gross income.

<sup>2</sup> See pp. 57-59.



Moreover, some forms of accumulation are currently exempt from effects of personal income taxes. When an individual or a family owns substantial equity in, or perhaps all the stock of, an enterprise that may have increased tremendously in value, no capital gains tax is paid on that increase in values so long as the stock is not transferred. In this way reservoirs of vast new wealth are being created without reflection in annual statistics of income and often without public knowledge.

Upon the death of the holder these accumulations come to light in estate appraisals; they are at this point subject to heavy estate taxes which may threaten family control of the enterprise, and in any event create severe problems as to liquid assets to pay the taxes due. These very difficulties have resulted in large gifts of such appreciated assets to an existing or newly created foundation. Such gifts are exempt from any capital gains tax and from estate taxes; they reduce the estate to proportions that can be handled, and are often so conveyed that management control is retained.

The influence of taxation on foundation formation can be overstated. Many of today's large foundations were established before income taxes existed or estate taxes were substantial; the religious and humanitarian motives that prompted their establishment are strong today, and would prompt similar enterprises now. The tax motive may be impelling in some cases, contributory in others, and in still others is nonexistent.

On balancing considerations of national income, philanthropic motive, and tax factors, it seems probable that organizations of the foundation type will continue to be set up in considerable numbers. Many of these will be small, some of moderate size, and a possibility remains that a few more very large foundations may arise.

### *Changing Patterns*

Most early foundations were set up with a single large gift, often in the form of a bequest though sometimes given during the donor's life. In the latter case the endowment might be aug-

mented, usually by residuary estate; but a foundation was characteristically an organization making grants from the income of an initially large corpus, given by one person.

That pattern has changed. Numerically, most modern foundations are "income type" rather than "capital type." When set up, whether as family foundations by individuals or as corporation foundations by business organizations, they seldom have substantial original endowment. Characteristically, new gifts are made every year, with in many cases most of these new gifts going toward current expenditure rather than building of corpus. Instead of representing a single donor, the foundation may be the channel for the philanthropy of a family group, or a closely held corporation and a number of individuals. In the case of family foundations, the corpus increases gradually, if at all, until one of the donors dies, when it may receive substantial sums from the estate. In the case of corporation foundations, the annual contribution varies with profits and the tax situation, though usually an effort is made to build up enough corpus to sustain contributions through three or four bad years. Therefore, corpus may vary from year to year, but is seldom large.

This pattern reflects tax considerations, at least in part. Since assurance of exempt status must usually await a year of active operation, donors have little incentive to make large initial gifts. Moreover, at high levels of personal income and corporation taxes, much larger gifts can be made if they are spread over a number of years and kept within tax-deductible limits than if made as a single gift.

For example, let us assume a man with an income of \$400,000 a year who desires to set up a \$1,000,000 foundation. If he gives the whole sum in one year, he can deduct only 20 per cent of \$400,000, or \$80,000, from taxable income, with the deduction worth \$72,800 at his 91 per cent rate. *Net cost of \$1,000,000 contribution, \$927,200.* If he spreads his gift over ten years, he gets a deduction worth \$72,800 each of the ten years (assuming the tax rate is unchanged). *Net cost of \$1,000,000 contribution, \$272,000.* Spreading his gift over thirteen years, he could have reduced the net cost to 9 per cent of the final gift, or \$90,000.

While tax rates and regulations continue as at present, the new "income type" foundations will increase in numbers, and generous persons will be enabled to give much larger sums to foundations or other charities of their choice. This new pattern, however, introduces a fogged area into the foundation field. Such organizations, whether set up by individuals or corporations, usually continue to discharge many of the civic obligations of their still-contributing donors. They are incorporated as foundations, but they have neither a substantial corpus nor the operating procedures of traditional foundations. As time passes they may acquire both, though this is not certain.

Problems of foundations which remain too small for efficient management after their donor's death have already been considered,<sup>1</sup> together with a few examples of consolidations—directly, in community trusts, or through other devices—but such examples are too scanty to prove a trend or indicate that a growing problem is on the way to satisfactory solution.

### *Cooperation Among Foundations*

Particularly in view of this multiplication of small and inexperienced foundations, exchange of experience and greater cooperation among foundations is desirable. Some steps are being taken in this direction.

Beginning in 1949, Texas foundations have been assembling annually for a one- or two-day conference for better acquaintance, exchange of information, and to hear experts in fields of their interest. At the 1955 Conference registration reached 107 and the broadening geographic scope was signaled by changing the name from Conference of Texas Foundations and Trust Funds to Conference of Southwest Foundations. This is a membership organization with dues, officers, an executive secretary functioning on part time throughout the year, and occasional publications. One such was a list of projects for which some of these foundations would welcome additional support. The Conference has avoided setting up a clearing house for joint con-

<sup>1</sup> See pp. 144-150.

sideration of outside projects, the dangers of which have been pointed out.<sup>1</sup>

Michigan foundations, at the invitation of the James Foster Foundation, held a similar conference in 1954 and published its proceedings. At its close further such group meetings were suggested, and one is scheduled for 1956.

In New York City an informal luncheon is held monthly to which foundation executives are invited; attendants are canvassed on topics of special interest, and arrangements are made for speakers on these subjects at future meetings. No formal organization has been set up.

Community trusts have had a national organization to serve their interests since 1949. Founded under joint sponsorship of Community Chests and Councils of America, the National Social Welfare Assembly, and the trusts themselves, their National Committee on Community Foundations maintains a New York office with a paid secretary, holds an annual meeting, circulates bulletins and other publications, and actively assists not only existing trusts of this type but in the formation of such trusts in communities not now so served. Of 106 presently active trusts, 48 hold membership in this organization.

The Division of General Education and the School of Law of New York University in 1953 and in 1955 sponsored conferences on foundation problems, inviting executives and trustees of foundations and interested lawyers. The first of these was confined largely to legal and tax problems; the second devoted one day to these aspects, a second day to program and administration.<sup>2</sup>

American Foundations Information Service, sponsored by Raymond Rich Associates, has since 1949 issued the *American Foundations News*, usually with eight issues a year, as a journal of the field. It published in 1955 a new directory, *American Foundations and Their Fields, VII*, and offers advice and information in this field on a fee basis.

<sup>1</sup> See pp. 186-188.

<sup>2</sup> *One-day Conference on Problems of the Charitable Foundation*. New York University. Prentice-Hall, New York, 1953.

*Proceedings of New York University Second Biennial Conference on Problems of the Charitable Foundation*. Matthew Bender and Co., Albany, 1955.

The selected bibliography<sup>1</sup> includes a small but growing group of publications dealing with philanthropy in general and sometimes foundations in particular, many of which were prepared by foundations with a view to helping others in the field. This study, which has had the cooperation of many foundations, becomes an addition to that list. Two of the larger foundations are currently initiating major efforts in this area.

Enough persons are now involved in the giving, getting, and administration of philanthropic funds, and the sums involved are substantial enough, to suggest that study and training at the university level may now be appropriate. Meanwhile broader exchange of experience and information among foundations is desirable, somewhat in the pattern of the Texas, Michigan, and New York groups. But a course must be carefully steered between helpful exchanges and dangerous concentration of control or limitation of freedom of choice.

### *Congressional Investigations*

In the course of their half century of rapid growth and change, foundations have undergone three major congressional investigations, and some of their operations have had airings at such special hearings as those before the Ways and Means Committee of the House,<sup>2</sup> and a Senate Subcommittee concerned with Royal Little's foundations and trusts.<sup>3</sup>

The first of the major investigations was in 1915, by the U. S. Senate Industrial Relations Commission headed by Senator Frank P. Walsh. The investigation was set off by the industrial unrest which had culminated in the so-called Ludlow massacre during a strike at the Colorado Fuel and Iron Company, a Rockefeller corporation. Many witnesses before this Commission

<sup>1</sup> See Appendix A.

<sup>2</sup> *Hearings Before the Committee on Ways and Means*. U. S. House, 77th Congress, 2d Session. Revenue Revision of 1942, Government Printing Office, Washington, 1942, vol. 1.

*Ibid.*, 80th Congress, 1st Session. Revenue Revisions, 1947-1948, vol. 5.

*Ibid.*, 81st Congress, 2d Session. Revenue Revision of 1950, vol. 1.

<sup>3</sup> *Hearings Before Subcommittee on Interstate and Foreign Commerce*. U. S. Senate, 80th Congress, 2d Session. *Closing of Nashua, N. H., Mills*, 1948.



charged that foundations were dominated by big business and were exerting strong influences in conservative and even reactionary directions. The majority report<sup>1</sup> severely censured many aspects of foundations and would have been content to "recommend abolition" if they could be separated from other forms of voluntary altruistic effort. It proposed federal chartering for all nonprofit organizations empowered to perform more than one function and holding funds in excess of a million dollars, with limitations on total funds, a prohibition against accumulation of unexpended income *and* spending in any one year more than 10 per cent of principal, public accounting, and banning alteration of charter purpose except by congressional action.

Minority reports, and much of the individual testimony, were quite different in tone. Samuel Untermyer proposed limitations on size and duration, organization under federal law only, government representation on the board of trustees, and a prohibition against accumulation of income. Nevertheless, he said:

I do not share the fear and distrust of these foundations. I believe them to be prompted by the highest ideals of patriotism and unselfish public spirit. They are magnificently managed by the best intellect of the country—far better than would be possible with any public institution. The genius and resourcefulness to which their founders owed their material success have been unselfishly expended by these men upon these foundations, which are to be monuments to future generations of their usefulness to society. They are doing incalculable public good and no harm. Happily, their conduct does not to any appreciable extent reflect the devious methods by which those fortunes were accumulated, nor the views or policies of their founders on economic questions.<sup>2</sup>

No congressional action followed the recommendations of this Commission; most of the fears there expressed have proved unfounded.

The next major investigation was that of the Select (Cox) Committee of the House in 1952, to which frequent reference has

<sup>1</sup> *Industrial Relations*: Final Report and Testimony Submitted to Congress by the Commission on Industrial Relations. 64th Congress, 1st Session. Senate Document No. 415, Government Printing Office, Washington, 1916.

<sup>2</sup> *Ibid.*, vol. 8, p. 7430.

been made in these pages. In this case the charge was not conservatism, but its opposite. Said the Committee itself:

. . . The criticism most frequently made against foundations and . . . the one urged with the greatest vehemence [is], 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?<sup>1</sup>

Within its time limitations, the Committee addressed itself to a searching investigation of nearly all aspects of foundation operation. The larger foundations were required to answer an exhaustive questionnaire; a sample of 1500 smaller foundations received an abbreviated form. Public hearings were conducted on 18 days between November 18 and December 30, 1952. Thirty-nine witnesses were called to the stand, including officers or trustees of all the very large foundations, prominent educators, and a group of Communist informers. Much other information was gathered from the questionnaires, correspondence, and private interviews. The Committee and its counsel, Harold M. Keele, conducted the hearings openly and fairly. The *Answers* of the various foundations to the questionnaire and the published *Hearings*<sup>2</sup> are mines of information on foundation practice.

As the Hearings progressed and the total picture unfolded, the suspicious if not hostile attitude of the Committee altered. Errors had been made, better reporting was needed, a few malefactors there were, but the final conclusion was this:

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.<sup>3</sup>

<sup>1</sup> *Final Report of the Select Committee to Investigate Foundations and Other Organizations*. 82d Congress, 2d Session, House Report No. 2514. Government Printing Office, Washington, 1953, p. 9.

<sup>2</sup> *Hearings Before the Select (Cox) Committee to Investigate Tax-Exempt Foundations*. U. S. House, 82d Congress, 2d Session. Government Printing Office, Washington, 1953.

<sup>3</sup> *Final Report*, p. 8.

One of the Committee members, Representative B. Carroll Reece, signed the unanimous report with a reservation on "insufficient time for the magnitude of its task." He obtained funds for an additional investigation to be conducted in 1953-1954. The "hearings" of this Special (Reece) Committee to Investigate Tax-Exempt Foundations covered 16 sessions between May 10 and June 17, 1954. Of the 12 witnesses, the 11 first heard were Mr. Reece, three members of his paid staff with extensive reports, two Treasury Department witnesses on technical tax questions, and five general witnesses unconnected with foundations. The thesis supported by the general witnesses and the staff testimony appeared to be that great changes had occurred in America in the direction of socialism and collectivism, with one of the witnesses holding that even the federal income tax was a socialist plot to destroy the government; these changes were aided, it was alleged, through a "diabolical conspiracy" of foundations and certain educational and research organizations. During a final four hours and twenty minutes one rebuttal witness was heard, though even he was not a representative of a foundation, but of one of the accused research organizations. Then the stormy sessions were suddenly ended by a strictly party vote. The foundations were permitted to reply only through written statements, which were long afterwards published as an Appendix to the main hearings.

The Committee meanwhile issued a 416-page "majority" report, including a lengthy appendix on persons or agencies with affiliations of an allegedly "questionable character." The main report repeated the allegations of the one-sided hearings, and then closed with relatively mild "concluding observations," with even these presented tentatively: "based on an incomplete inquiry, all final conclusions are subject to possible revision."<sup>1</sup>

This "majority" report was signed by three of the five members of the Committee, but one of them, Representative Angier L. Goodwin, who had been a member of the previous Cox Com-

<sup>1</sup> *Report of the Special (Reece) Committee to Investigate Tax-Exempt Foundations*. 83d Congress, 2d Session, House Report No. 2681. Government Printing Office, Washington, 1954, p. 211.

mittee, quite negated his signature by submitting a lengthy statement concluding with the remark, "Nothing has transpired in the proceedings of the present committee to cause me to alter or modify the views I expressed in the Cox Committee report. I take this opportunity to again re-affirm them." The remaining two members of the Committee, representatives Wayne L. Hays and Gracie Pfost, issued a minority report, stating in part:

The minority does not agree with the report submitted by the majority. It not only disagrees with that report but earnestly believes that it should never be published.

Each step of the proceedings of this committee placed an ugly stain on the majestic record of the United States House of Representatives and the great tradition of the American people. . . .

This was not an investigation in which the purpose was to gather facts, to evaluate them, and then to arrive at fair conclusions on the basis of those facts. Instead, we are presented with an inquiry in which facts have played no part. The committee's activities were in single purpose directed at justifying conclusions arrived at even in advance of the enabling resolution of the House of Representatives.

The minority cannot emphasize too strongly the abhorrence it holds for such a procedure and indeed the abhorrence which the House of Representatives and the American public will hold for the whole unfortunate transaction when the majority report is published. . . .

In addition, the real mischief in these proceedings rests in the effect which they may have on the future conduct of the tax-exempt foundations. If, as a result of this inquiry, the foundations shall surrender to timidity, then the aim of those who would destroy the effectiveness of the foundations shall have been accomplished. Truly, the integrity of the foundations will hinge on the manner in which they meet this challenge.<sup>1</sup>

Effects of the recent congressional investigations are not yet clear. A few foundations needed prodding on their responsibilities as public trusts, and for them the results may be wholly salutary. Review of policies by trustees and staff and a sense of common interest under violent attack have been stimulated among long-established organizations. Some of the suggestions, even of the Reece Committee, are worth sober consideration. Damage has been done among the headline reading public, and from this time forward certain serious and completely unfounded charges

<sup>1</sup> "Minority Views" in *Report of the Special (Reece) Committee*, pp. 421, 428, 430.



against foundations can be repeated on apparent authority of a publication of the United States government. Little evidence exists, however, that these charges are taken seriously by any considerable group, or that restrictive legislation is now impending.

Some foundation trustees and staff members may have been intimidated, as the Minority Report feared, and may fail to take up controversial issues that need attention. Others as certainly have not. At a recent conference on foundation problems Dean Rusk, president of The Rockefeller Foundation, asserted:

I do not believe that foundations and their trustees have been intimidated by the events of the past two years. And I have no doubt but that ten or twenty years hence, whenever the next round of investigation comes, we shall have an interesting list of controversial items for consideration. Just which ones they shall be, we have no way of knowing, for that will depend upon the predilections of the investigator.<sup>1</sup>

### *Needs of the Future*

A future of expanding usefulness will not occur automatically. The esteem in which foundations are now held is built largely upon the solid achievements of a few leaders in the field. Much of that esteem could be speedily lost if a substantial number of foundations are discovered to be serving primarily the financial interests of the donors, with little or no concern for the public welfare. Progress for foundations, and possibly their survival, will depend, not upon tax advantages or legally correct charters or dollar assets, but primarily on the worth of the programs they support in terms of public welfare.

No single prescription will serve, for conditions are changing rapidly. Government has taken over large areas where foundation support was formerly essential, but, said Dr. Vannevar Bush:

Nevertheless, as the Federal Government moves into the support of science in this country, as was indeed necessary, and which I advocated, I feel that the need of private funds, with their complete freedom, their ability to pioneer, their ability to take a chance, their opportunity to set standards, is more than it used to be. . . .<sup>2</sup>

<sup>1</sup> *Proceedings of New York University Second Biennial Conference on Problems of the Charitable Foundation*, p. 179.

<sup>2</sup> *Hearings Before the Select (Cox) Committee*, p. 152.



Relatively, foundation resources are smaller in the total American economy, but they occupy a position of peculiar freedom. The degree to which such freedom may place upon them a mandate to aid studies in controversial areas, which can attract little support elsewhere, has already been discussed.<sup>1</sup> This special position may also suggest the desirability of exercising great care in selection, and sometimes taking long chances. As one foundation working in the field of the creative arts pointed out:

. . . from our point of view no system of selection which does not contemplate a certain number of errors can be good. If the Foundation is to do its utmost to develop the artistic power of the country, it cannot confine itself merely to safe appointments. Rather, the Foundation must take chances, realizing that all these chances will not work out, but gambling that some candidates so chosen may reach heights to which the merely safe can never aspire.<sup>2</sup>

Pointing out specific areas for present support or research would serve little purpose. Needs change, the persons capable of outstanding work in any special field are limited in number, and before the advice is in print its pertinence might be lost. The collective value of the foundation contribution consists in the alertness of the trustees and staffs of many foundations to opportunities in their own regions and areas of interest.

Local foundations with limited resources, particularly those of the family and corporation type, may not discover, or have the means to support, enterprises of national importance. They can make notable contributions to local welfare; here also careful selection of projects may yield multiplied benefits.

Large foundations with broad charters should review program frequently, from time to time investigating new areas but not withdrawing from present ventures until diminishing returns, support from other sources, or prolonged failure indicates change. One trustee committee charged with investigating a possible new program suggested to the full board this background for their more specific recommendations:

<sup>1</sup> See pp. 199-204.

<sup>2</sup> John Simon Guggenheim Memorial Foundation, *Answers to Questionnaire*, p. 211.

No age has been driven so urgently as our own by social and technological forces. A wholly new scale of population increase and the invention of a wholly new source of power have the effect of transforming virtually every institution from top to bottom.

In this country the next decades are bound to see new patterns of social living developing with a rapidity which makes it hard to keep abreast of them and even harder to know what they involve in terms of changed values and mental concepts. There will be an intensive cultivation of this continent—cultivation in the largest sense of the word—compared to which everything done heretofore will seem like a mere scratching of the surface. New cities, new regions, new industries, new realms of comprehension will open in staggering succession.

In the world the changes and stresses will be even more difficult to compute and analyze. The nation-state as it originated in the sixteenth century is passing through radical and often unobserved transformations. Yet the next emerging order has no name that can describe it, no values that command allegiance or assent. Within this over-all revolution, every lesser aspect of life is subject to the doubts and agonies of re-creation.

What part is the . . . [a research foundation] to play amid this whirlwind?

In physics, one rather recent day, we discovered the laws of gravitation, and now we are able to control the motions of smaller objects and at least to predict the motions of those, like planets, too big for us to handle. Not so with nations. They circle about us on erratic paths beyond our prediction, and, too frequently, in spite of all our efforts at control, they violently collide. The fundamental laws of attraction and repulsion among men and nations have not yet been discovered.

Radical investigation is needed, possibly tearing up the very roots of some of our present beliefs. In the physical sciences discovery came with a rush only after men learned to observe and experiment, and were willing to doubt any "law"—however logical it had seemed, or however sanctified by long belief—if repeated experience and experiment showed flaws in it. Then, doubting and experimenting, men began to pile discovery upon discovery, until no miracle seemed beyond their power—no miracle unless it be simple survival of the human race.

In the relations of men and nations we need similarly to observe, to experiment, and to doubt; to be willing to question any belief or long-held practice if it is not working well. Such fundamental investigation is difficult; sometimes it is dangerous. Possibly the techniques of the social sciences are not yet adequate for dealing with many such problems. It is certain that study of some of them can hope for no financial support from business or government, and might face popular disapproval.

The social sciences are still in the Galileo stage; investigations which challenge long-held beliefs are unsafe. The Special (Reece) Committee warned trustees to "be very chary of promoting ideas, concepts and opinion-forming material which runs contrary to what the public currently wishes, approves and likes."<sup>1</sup> The well-run foundation does not "promote" ideas in controversial areas; it supports objective investigations in such areas and others, and it permits and encourages competent investigators to state their conclusions, without regard to whether the public or a congressional committee "wishes, approves and likes" the result. If the world does move, the fact should be stated. But perhaps only philanthropy's venture capital is in a position to help tomorrow's Einstein discover a law of relativity among men and nations.

To the explosive issues of the social sciences foundations have given increased attention, but support is not yet large. Can they make a substantial contribution, even if their boards have sufficient courage to commit larger portions of their still limited funds?

Money is not the primary need. Dollars are required, but they must be germinated into greatness by men. Money cannot buy the sound research we need to understand our problems, or the pioneering discoveries we must have if we are to solve them. All that money can do is to find a man of vision and ability, and give him time and give him tools. Our shortage is able, trained men.

It is here that foundations can exert unusual leverage with their limited funds. Some can assist in discovering and training talented men. Others can use their unique position in the Amer-

<sup>1</sup> *Report of the Special (Reece) Committee*, p. 20.

ican scheme of life to offer to the qualified the freedom to do creative, pioneering work in important, sensitive fields.

Barring major catastrophes of war, severe inflation, or drastic governmental controls, foundations may be expected to increase in numbers. They will have many projects submitted to them, most of which promise results that will be highly creditable—and commonplace. What is needed is the vision to pick out the significant few, and then to choose the right man. As more foundations make this endeavor, their contribution to social progress may prove even greater in their second half-century.





## *APPENDICES*



## A P P E N D I X A

# Bibliography

[*This Bibliography is divided into two parts: (1) General, consisting of books or selected briefer material dealing with foundations in general, full histories of single foundations, or studies in philanthropy annotated for their foundation relevance; (2) Reports of foundations, alphabetized by the names of the foundations. In both sections entries have been annotated by the writer.*]

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- LINDEMAN, EDUARD C., *Wealth and Culture: A Study of One Hundred Foundations and Community Trusts and Their Operations During the Decade 1921-1930*. Harcourt, Brace and Co., New York, 1936. 135 pp. A philosophical and factual discussion, with extensive tables.
- LOOMIS, FRANK D., "Community Endowment," *Survey Graphic*, October, 1943, pp. 401-404. A good summary of the status at that time of community trusts, by the then secretary of the Chicago Community Trust.
- MACK, WILLIAM, AND WILLIAM BENJAMIN HALE, editors, *Corpus Juris*, Vol. 11. American Law Book Co., New York, 1917. 1238 pp. Pp. 297-379 of this volume cover the legal basis for charitable trusts, including definition, creation and validity, purposes, trustees, administration and management, modification, termination.
- MARTS, ARNAUD C., *Philanthropy's Role in Civilization: Its Contribution to Human Freedom*. Harper and Bros., New York, 1953. 206 pp. The American scene, with strong emphasis on religious motivation and fund-raising methods.



- MILL, JOHN STUART, *Dissertations and Discussions*. William V. Spencer, Boston, 1865. Vol. 1, 425 pp. Pp. 28-67 cover his arguments for governmental discretionary power to regulate and modify long-term endowments and perpetuities. A more considered statement than his oft-quoted paper on Endowments in the *Fortnightly Review* of April, 1869.
- MILLER, H. H., "Investigating the Foundations," *Reporter*, vol. 9, November 24, 1953, pp. 37-40. Political and other considerations behind the Cox and (then) proposed Reece Committees' investigations of foundations.
- MILLETT, JOHN D., *Financing Higher Education in the United States*. Columbia University Press, New York, 1952. 503 pp. The staff report of the Commission on Financing Higher Education, with important implications for foundations and frequent mention of their activities in this area.
- MINER, FRANCES H., editor, *Horace H. Rackham and Mary A. Rackham Fund*, Detroit and Ann Arbor, 1934-1940. The Trustees, Ann Arbor, 1940. 60 pp. Substantially complete report of the operations of this Fund, now dissolved.
- MULLER, ALBERT, *La Querelle des Fondations Charitables en Belgique*. Albert Dewit, Brussels, 1909. 345 pp. Criticism of severe regulation in Belgium; comparison with provisions in several other countries.
- NEVINS, ALLAN, *Study in Power: John D. Rockefeller, industrialist and philanthropist*. Charles Scribner's Sons, New York, 1953. 2 vols. Includes extensive treatment of the several Rockefeller foundations and other philanthropies.
- NEW YORK TIMES INDEX. A good resource for recent news of foundations, listed under names of individual foundations.
- NEWMAN, EDWIN S., *Law of Philanthropy*. Legal Almanac Series. Oceana Publications, New York, 1955. 96 pp. This pamphlet treats briefly federal and state laws governing charitable giving, fund-raising, foundations, and trusts. Law for the layman.
- OGG, FREDERIC AUSTIN, *Research in the Humanistic and Social Sciences*. Century Co., New York, 1928. 454 pp. Chapter 15 deals with foundations and endowments in relation to research.
- ORTON, WILLIAM A., "Endowments and Foundations," *Encyclopaedia of the Social Sciences*. Macmillan Co., New York, 1931, vol. 5, pp. 531-537. A very informing brief presentation.

- PHILANTHROPY: The Magazine of Public Service. New York. First published in the fall of 1952, this magazine includes in nearly every issue news notes concerning foundations or foundation grants, biographies of foundation leaders, and reported in much detail the congressional hearings.
- PICKERING, DANBY, *The Statutes at Large*, from the Thirty-ninth of Q. Elizabeth, to the Twelfth of K. Charles II, inclusive. Printed at Cambridge University, 1763. Vol. 7, 512 pp. Includes Act 43 Elizabeth, the cornerstone of British and much American jurisprudence on charitable trusts.
- PRITCHETT, HENRY S., "A Science of Giving," *Report for 1921-1922*. Carnegie Corporation of New York, New York, 1922, pp. 13-20. Some of the difficulties and problems in administering "gift money if its effect is not to do more harm than good."
- "The Use and Abuse of Endowments," *Atlantic Monthly*, October, 1929, pp. 517-524. Historical retrospect, and defense of the principle of perpetuity for American endowments.
- PROBLEMS OF THE CHARITABLE FOUNDATION. New York University, Prentice-Hall, New York, 1953. 59 pp. Transcript of talks delivered at a one-day conference, chiefly on tax relationships; includes address by Harold M. Keele, on findings of the Cox Committee.
- PROCEEDINGS of New York University Second Biennial Conference on Problems of the Charitable Foundation. Matthew Bender and Co., Albany, 1955. Includes addresses of 19 speakers at the 1955 Conference conducted at New York University.
- REPORT FROM HIS MAJESTY'S COMMISSIONERS for Inquiring into the Administration and Practical Operation of the Poor Laws. B. Fellowes, London, 1834. 490 pp. Includes criticism of the British charitable foundations, with the unfavorable end results of much direct relief.
- "REPORT OF THE CHAIRMAN OF SPECIAL COMMITTEE on a Uniform Act for the Supervision of Charitable Trusts," *Handbook of the National Conference of Commissioners on Uniform State Laws*. San Francisco, 1952, pp. 512-518. Includes a brief discussion of need for legislation and draft of a proposed uniform act.
- REPORT OF THE COMMITTEE ON THE LAW AND PRACTICE relating to Charitable Trusts. Cmd. 8710. Her Majesty's Stationery Office, London, 1952. 251 pp. Penetrating report of the Lord Nathan Committee on the present status of British charitable trusts, with recommendations for the future.

- RESTATEMENT OF THE LAW OF TRUSTS. American Law Institute, St. Paul, 1935, vol. 2, pp. 809-1496. Volume 2 includes the very useful section on Charitable Trusts—definition, nature, administration, failure (*cy pres*), and liabilities to third persons.
- RICH, WILMER SHIELDS, *American Foundations and Their Fields*. See American Foundations and Their Fields.
- ROCKEFELLER. "John D. Rockefeller, Jr., Philanthropist," *Fortune*, July, 1936, pp. 39 ff. Very readable account of the younger Rockefeller as a giver, with minor references to foundations.
- ROCKEFELLER, JOHN D. (SR.), "Some Random Reminiscences of Men and Events," Parts 3 and 4, *World's Work*, December, 1908, pp. 10,992-11,004; January, 1909, pp. 11,101-11,110. Part 3, The Difficult Art of Giving, describes philanthropy's role in research and prevention, and defends constructive economic activity as a form of philanthropy; Part 4, The Benevolent Trust, describes organized philanthropy of the foundation type as a search for cause, an attempt to cure evils at their source.
- ROSENWALD, JULIUS, "The Burden of Wealth," *Saturday Evening Post*, January 5, 1929, pp. 12, 13, 136. Mr. Rosenwald's stand against perpetuities and his general philosophy in the use of wealth.
- "Principles of Public Giving," *Atlantic Monthly*, May, 1929, pp. 599-606. Mr. Rosenwald's opinions on the dangers of perpetual endowments, and a statement of his own action.
- "Trends Away from Perpetuities," *Atlantic Monthly*, December, 1930, pp. 741-749. Report on favorable reactions to his earlier article, and an additional argument against perpetuities.
- RUBINOW, RAYMOND S., "Philanthropic Foundations and Public Relations," Public Relations Directory and Yearbook, New York, 1945, vol. 1, pp. 124-128. General view of foundations from the viewpoint of the applicant for funds.
- RUML, BEARDSLEY, AND THEODORE GEIGER, editors, *Manual of Corporate Giving*. National Planning Association, Washington, 1952. 415 pp. Includes discussion of corporation foundations.
- SARRAZIN, ALBERT, *Étude sur les fondations dans l'antiquité en particulier à Rome et à Byzance*. F. Pichon et Duran-Auzias, Paris, 1909. 240 pp. Useful study of origins of perpetuities in Chaldea, Egypt, Greece, and Rome.
- SÁVAGE, HOWARD J., *Fruit of an Impulse: Forty-Five Years of the Carnegie Foundation, 1905-1950*. Harcourt, Brace and Co., New York, 1953. 407 pp. Enlightening history of one foundation with material of general value.

- SCOTT, AUSTIN W., "Charitable Trusts," *Encyclopaedia of the Social Sciences*. Macmillan Co., New York, 1930, vol. 3, pp. 338-340. A brief, informing article.
- The Law of Trusts*. Little, Brown and Co., Boston, 1939. 4 vols. A standard reference with extensive sections on charitable trusts.
- SEARS, JESSE B., *Philanthropy in the History of American Higher Education*. U. S. Bureau of Education, Bulletin no. 26. Government Printing Office, Washington, 1922. 112 pp. Documented study of early economic philosophies relating to endowments, with a final chapter on foundations important in the field of higher education.
- SEEMAN, ERNEST, "Duke: But Not Doris," *New Republic*, September 30, 1936, pp. 220-222. Charges that the Duke Endowment and Duke University are influenced in private interest.
- SHEA, ALBERT A., editor, *Corporate Giving in Canada*. Clarke, Irwin & Co., Toronto, 1953. 148 pp. A study of corporation giving that includes a brief section on special restrictions on Canadian corporation foundations under the Canadian Income Tax Act.
- SHEFELMAN, HAROLD, "Legal and Tax Problems of Charitable Trusts and Gifts," *Trust Bulletin*, vol. 32, November, 1952, pp. 25-33. Clear, popular presentation of legal aspects of charitable giving.
- SHUMAN, EDWIN L., "Broad Scope of American Philanthropy," *Current History*, February, 1931, pp. 702-707. Activities of foundations in the setting of philanthropy as a whole, with considerable detail on foundation history and programs.
- SIMES, LEWIS M., *The Law of Future Interests*. West Publishing Co., St. Paul, 1936, 3 vols. 1666 pp. Volume 2 contains valuable sections on the rule against perpetuities and the exceptions to it with respect to both accumulations and perpetuities for charitable uses, as in foundations.
- SIMSAR, MUHAMMED ASHMED, *The Waqfızah of 'Ahmed Pasa*. University of Pennsylvania Press, Philadelphia, 1940. 203 pp. Turkish endowment of the sixteenth century still persisting in part.
- SLICHTER, SUMNER H., "Undermining the Foundations," *Atlantic Monthly*, September, 1954, pp. 50-54. Severe criticism of the Reece Committee's "one-sided and unfair treatment of the foundations."
- SMITH, ADAM, *Wealth of Nations*. George Routledge & Sons, Ltd. London, undated. 780 pp. Includes his oft-quoted objections to endowments.
- SMITH, JAMES G., *Development of Trust Companies in the United States*. Henry Holt and Co., New York, 1928. 613 pp. Includes a section on community trusts, together with an early bibliography on the subject.



SOCIAL WORK YEAR BOOK. Russell Sage Foundation, New York, published biennially. Each issue contains an article on foundations, stressing developments in the biennium. The authors were Shelby M. Harrison in 1929, 1933, 1941, 1943; Eduard C. Lindeman in 1935, 1937; John M. Glenn in 1939; F. Emerson Andrews in 1945 and 1949, and with Shelby M. Harrison in 1947.

SOCIAL WORK YEAR BOOK. American Association of Social Workers, New York, published periodically. The two issues published by the Association included articles on foundations and community trusts by Wilmer Shields Rich in both the 1951 and 1954 editions.

SPIVACK, SYDNEY SHEPHERD, *Foundations and Accountability*. Unpublished, 1953. 166 pp. A master's thesis submitted to the Faculty of Political Science, Columbia University, based largely on an analysis of pertinent parts of the replies of larger foundations to the Cox Committee Questionnaire.

SPONSORED RESEARCH POLICY OF COLLEGES AND UNIVERSITIES. American Council on Education, Washington, 1954. 95 pp. Includes a section on foundation support, and extensive discussion of the question of payment of overhead by supporting agency.

"SUPERVISION OF CHARITABLE TRUSTS," *University of Chicago Law Review*, vol. 21, Autumn, 1953, pp. 118-134. A thoughtful criticism of the present situation, carried as an unsigned "Comment."

TAYLOR, ELEANOR K., *Public Accountability of Foundations and Charitable Trusts*. Russell Sage Foundation, New York, 1953. 231 pp. Provisions within various states and in federal legislation for recording, reporting, and reviewing the activities of foundations and trusts.

TAYLOR, HOY, *An Interpretation of the Early Administration of the Peabody Education Fund*. Contributions to Education, No. 114. George Peabody College for Teachers, Nashville, 1933. 166 pp. Excellent record of the early operation (to 1881) of what is perhaps the first true foundation.

TRONQUOY, MARCEL, *De la Notion Juridique Internationale de la Fondation*. A. Rousseau, Paris, 1908. 336 pp. Doctoral thesis considering the foundation in the light of legislation in various countries. Includes an extensive bibliography of French references.

TURGOT, ANNE ROBERT JACQUES, *Life and Writings*, edited by W. Walker Stephens. Longmans, Green and Co., New York, 1895. Pages 219-228 present his article "Fondation" from l'Encyclopédie, in which he discusses defects in the French foundations and in the principle of perpetual endowment.



TYSSEN, AMHERST D., *The Law of Charitable Bequests*. Sweet and Maxwell, London, 1921, 2d ed. 267 pp. A standard British text (first published in 1888) with more recent annotations.

U. S. CONGRESS, HOUSE OF REPRESENTATIVES. Committee on Ways and Means. *Hearings, Revenue Revision of 1942*. 77th Congress, 2d Session. Government Printing Office, Washington, 1942. Vol. 1 includes Hearings pertinent to foundations.

*Revenue Revisions, 1947-1948*. 80th Congress, 1st Session. Government Printing Office, Washington, 1948. Part 5 includes Hearings in December, 1947, many of which concern foundations, and particularly their growing association with business enterprises.

*Revenue Revision of 1950*. 81st Congress, 2d Session. Government Printing Office, Washington, 1950. Vol. 1 includes Treasury proposals for preventing certain abuses on the part of some foundations.

Select (Cox) Committee to Investigate Tax-Exempt Foundations and Comparable Organizations. *Answers to Questionnaires Submitted to the Larger Foundations*. File Clerk's Office, House of Representatives, Washington, 1952. Unpublished. Informing material, open to the public under certain restrictions. From the Cox Committee files.

*Hearings Before the Select (Cox) Committee to Investigate Tax-Exempt Foundations and Comparable Organizations*. 82d Congress, 2d Session. Government Printing Office, Washington, 1953. 792 pp. Exceedingly informing volume, with testimony from leaders of nearly all the large foundations, and a few of their detractors.

*Final Report of the Select Committee to Investigate Foundations and Other Organizations*. 82d Congress, 2d Session. House Report No. 2514. Government Printing Office, Washington, 1953. 15 pp. The findings of the so-called Cox Committee, balanced and informing.

*Hearings Before the Special (Reece) Committee to Investigate Tax-Exempt Foundations and Comparable Organizations*. Part I. 83d Congress, 2d Session. Government Printing Office, Washington, 1954. 943 pp. Extensive testimony by the Committee's staff and witnesses selected by them; the Hearings were closed before any foundation witness was permitted to testify.

*Hearings, Part II*. 83d Congress, 2d Session. Government Printing Office, Washington, 1954, pp. 945-1241. Reprints the written replies of some of the major foundations, with additional material from the Committee.

*Report of the Special (Reece) Committee to Investigate Tax-Exempt Foundations and Comparable Organizations*. 83d Congress, 2d Session. House

Report No. 2681. Government Printing Office, Washington, 1954. 432 + 163 pp. This voluminous report repeats much of the initial testimony, includes the sharply contradictory Minority Views, and adds an index to both the Reece and Cox Hearings.

- U. S. CONGRESS, SENATE. *Industrial Relations*: Final Report and Testimony submitted to Congress by the Commission on Industrial Relations created by the Act of August 23, 1912. 64th Congress, 1st Session. Senate Document No. 415, Government Printing Office, Washington, 1916. 11 vols. Includes voluminous data from the earliest governmental investigation of foundations.

*Hearings Before a Subcommittee of the Committee on Interstate and Foreign Commerce*. Investigation of Closing of Nashua, N. H., Mills and Operations of Textron, Incorporated. 80th Congress, 2d Session. Part I, Hearings in Nashua, 1948, 180 pp. Part II, Hearings in Boston, 1948, 1042 pp. Government Printing Office, Washington, 1948 and 1949. Includes lengthy testimony on the operation of Royal Little's several foundations.

VARNY, HAROLD LORD, "Are the Foundations Untouchable?" *American Legion Magazine*, June, 1955, pp. 18-19, 54-59. Blistering attack on foundations following the Reece Committee slant.

VELIE, LESTER, "How to Give Money Away," *Collier's*, December 25, 1948, pp. 50, 79. Popularly written general article on foundations.

WALTZING, JEAN PIERRE, *Etude Historique sur les Corporations Professionnelles chez les Romains*. F. Hayez, L'Académie Royale, Brussels, 1895-1900. 4 vols., 2507 pp. Consideration at length of Roman associations and corporations, of which some were endowed, and included philanthropic objectives.

WHYTE, WILLIAM H., JR., "What Are the Foundations Up To?" *Fortune*, October, 1955, pp. 110-113, 254-260. A critical examination of foundations based on Carnegie, Ford, and Rockefeller.

"Where the Foundations Fall Down," *Fortune*, November, 1955, pp. 140-141, 211-220. Operations of the three largest foundations in the social sciences.

WILEY, MALCOLM M., AND DALE O. PATTERSON, "Philanthropic Foundations and Their Grants to Institutions of Higher Education during the Depression Years," *School and Society*, May 8, 1937, pp. 661-664. The depression decline in foundation grants, and their distribution among public and private institutions of higher education.

WOOD, STRUTHERS & COMPANY, *Trusteeship of American Endowments*. Macmillan Co., New York, 1932. 156 pp. Detailed analysis of in-

vestment policies of the time, with a general chapter on the total philanthropic picture.

WYNN, JAMES O., "Charitable Organizations," *Trusts and Estates*, October, 1953, pp. 762-766. A re-examination of underlying policies of law, with consideration of reporting and accountability.

YOUNG, JAMES C., "The Dead Hand in Philanthropy," *Current History*, March, 1926, pp. 837-842. Unhappy results of many of the older perpetuities.

ZINSSER, HANS, "The Perils of Magnanimity: A Problem in American Education," *Atlantic Monthly*, February, 1927, pp. 246-250. Dangers of educational dependence upon continuing philanthropic boards, particularly in medicine.

ZOLLMAN, CARL, *American Law of Charities*. Bruce Publishing Co., Milwaukee, 1924. 623 pp. A detailed discussion, now somewhat dated. Extensive case citations.

## 2. REPORTS OF FOUNDATIONS

[No common depository yet exists for reports of all foundations. This first attempt at a listing is undoubtedly incomplete; on the other hand, it includes, for possible comparative value, reports of some organizations which do not wholly satisfy the definition of foundation used elsewhere in this study. Only the most recent report is entered for each foundation, but the descriptive comment mentions summary reports of earlier years. Table 29 on page 314 supplies additional data.]

AMERICAN FOUNDATION FOR POLITICAL EDUCATION, *Annual Report for the Year Ending June 30, 1954*. Chicago. 27 pp. Descriptive, with quoted comments on program. Annual reports since 1952.

AMERICAN FUND FOR PUBLIC SERVICE, *Report for the Two Years, 1928-30. Summary of Eight Years*. New York, 1931. 20 pp. Brief statistical summary of the total activities of the "Garland Fund."

AMERICAN-SCANDINAVIAN FOUNDATION, *Forty-Third Annual Report, 1954*. New York, 1954. 32 pp. Annual report of a foundation operating in the international field.

ASSOCIATION FOR THE AID OF CRIPPLED CHILDREN, *Synthesis: Annual Report for the Year Ending March 31, 1954*. New York. 32 pp. Descriptive, illustrated, intended for the general reader. Annual reports since 1900.

ATKINSON CHARITABLE FOUNDATION, *Annual Report, 1954*. Toronto. 54 pp. Detailed, with helpful tables. The first (1950) report summarized the 1942-1950 period. Annual reports since 1950.

- AVALON FOUNDATION, *Report* from December 26, 1940, to December 31, 1950. New York, 1951. 37 pp. Brief summary of first ten years, during which 672 grants were made. Illustrated.
- BAKER-HUNT FOUNDATION, *Six Twenty, Margaretta Hunt, and The Baker-Hunt Foundation*. Covington, Ky., 1942. 131 pp. Cloth-bound, illustrated, highly personal record of a trust established in 1922 to support a specialized community center.
- BAMBERGER (LOUIS) AND MRS. FELIX FULD FOUNDATION. Finances of this organization are reported by The Institute for Advanced Study, Princeton, which it supports as substantially its only activity.
- BELGIAN AMERICAN EDUCATIONAL FOUNDATION, *Report for the Years 1944-1951*. New York, 1952. 71 pp. Formerly the C.R.B. (Commission for Relief in Belgium) Educational Foundation, this report covers exchange fellowships. Annual reports from inception in 1920 through 1938 except for combined reports 1921-1922 and 1931-1933. Since then, reports for 1939-1940; 1941-1943; 1944-1951; subsequent reports to be biennial.
- BICKELL (J. P.), FOUNDATION, *Report*, August 22, 1951 to August 22, 1953. National Trust Co., Ltd., Toronto, 1953. 16 pp. Brief report, indicating origins of this foundation, general purposes, and list of grants in first two years.
- BOARD OF DIRECTORS OF CITY TRUSTS, CITY OF PHILADELPHIA, *Eighty-Fifth Annual Report . . . for 1954*. Philadelphia. 167 pp. Comprehensive accounting for the numerous separate trusts held by this agency, with the trust for Girard College the largest. Annual reports since 1869.
- BOLLINGEN FOUNDATION, *Report, 1945-1953*. New York, 1954. 52 pp. Brief description of eight years' activities including fellowships and publication subsidies.
- BROOKINGS INSTITUTION, *Thirty Years of Achievement*. Washington, 1946. 44 pp. Includes a brief section on organization and early history. Booklets promotional in tone are occasionally issued.
- BUHL FOUNDATION, *Report* by the Director upon its Work to June 30, 1955. Pittsburgh, 1955. 145 pp. A five-year report, well illustrated, including a summary for twenty-seven years. Similar summarizing reports were issued in 1950 and 1942.
- BURKE (WINIFRED MASTERSON) RELIEF FOUNDATION, *Seventeenth Report, Six Year Period, 1945-1951*. White Plains, N. Y. 27 pp. A foundation devoted to maintenance of a convalescent home reports its history, present operations, but not its finances.

- BURROUGHS NEWSBOYS FOUNDATION. *See under* Burroughs in general bibliography.
- C. R. B. EDUCATIONAL FOUNDATION. *See* Belgian American Educational Foundation.
- CARNEGIE CORPORATION OF NEW YORK, *Annual Report* for the Fiscal Year Ended September 30, 1954. New York, 1955. 110 pp. A full report, including an essay type introduction to a field of interest to the Corporation.
- Index to Reports of Officers*. Vol. 1, 1921-1951. New York, 1953. 217 pp. An extensive index to the annual reports from October 1920 to the end of September 1951.
- CARNEGIE ENDOWMENT FOR INTERNATIONAL PEACE, *Annual Report, 1952-1953*. New York. 56 pp. Illustrated with halftones, map. Includes Letter of Gift and initiating legal documents.
- CARNEGIE FOUNDATION FOR THE ADVANCEMENT OF TEACHING, *Forty-Ninth Annual Report* for the Year Ended June 30, 1954. New York. 44 pp. With an ad interim president, the current report is brief, but adequate statistically. For an excellent history of the Foundation, *see* Savage, in the general bibliography.
- CARNEGIE HERO FUND COMMISSION, *Fifty Years, 1904-1954*. Pittsburgh, 1954. 67 pp. Includes Deed of Trust and other documents, describes deeds of heroism with awards for year ending January 31, 1954, and indexes award winners from January 1943 to date. The 1943 report listed all awards made prior to that date.
- CARNEGIE INSTITUTION OF WASHINGTON, *Year Book No. 53*. July 1, 1953-June 30, 1954. Washington, 1954. 311 pp. An exceedingly full report, illustrated, and detailing many of the scientific findings. Indexed.
- CARVER (GEORGE WASHINGTON) FOUNDATION, *Annual Report, 1953-1954*. Tuskegee Institute, Ala. 20 pp. Report of research and other activities chiefly at Tuskegee Institute. The first annual report, issued in 1947, covered the period 1940-1947.
- CHICAGO COMMUNITY TRUST, *Fortieth Anniversary Report, 1915-1955*. Chicago, 1955. 39 pp. In addition to the usual annual report, the 1955 issue summarizes activities for forty years.
- CHILDREN'S FUND OF MICHIGAN, *Twenty-Fourth Annual Report* for the Period May 1, 1952-April 30, 1953. Detroit. 15 pp. The Fund is now approaching dissolution.



- CHINA MEDICAL BOARD OF NEW YORK, *Annual Report, 1953-54*. New York. 16 pp. Brief account of present activities, restricted by the situation in China. The first annual report, for 1950-1951, included a section on History and Program.
- CHURCH PEACE UNION (Founded by Andrew Carnegie). *Report of the Secretaries and the Auditors for the year 1954*. New York. 30 pp. Brief general report on activities and finances.
- CLEVELAND FOUNDATION, *Annual Report, 1954*. Cleveland, 1955. 30 pp. The report of the "pioneer" community trust includes a full accounting of funds in hand and expenditures for the year.
- COMMONWEALTH FUND, *Thirty-Seventh Annual Report for the Year Ending June 30, 1955*. New York, 1955. 46 pp. Includes description of grants and activities, fellowships, publications.
- CONSERVATION FOUNDATION, *Annual Report for the Year 1954*. New York. 27 pp. A full account of activities of a "foundation" that is both a collecting and disbursing agency.
- CULLEN FOUNDATION. *See under* Kilman in the general bibliography.
- DE HIRSCH (BARON) FUND. For an extended history *see under* Joseph in the general bibliography.
- DODGE (CLEVELAND H.) FOUNDATION, *Cleveland H. Dodge Foundation, Inc., 1917-1950*. New York. 10 pp. Very brief report on first 33 years. Financial data incomplete.
- DUKE (ANGIER B.) MEMORIAL, *Report*. New York, 1951. 17 pp. Brief report from 1925 to 1951, with useful analysis of student loan procedures and experience.
- DUKE (DORIS) FOUNDATION, *Annual Report for the Year Ending December 31, 1953*. New York. 11 pp. Brief account of the year's contributions, chiefly by categories. The first *Report*, issued in 1952, covered operations from 1934 through 1951 together with a brief historical résumé.
- DUKE ENDOWMENT, *Duke Endowment Year Book, No. 22*. Charlotte, N. C., 1954. 45 pp. Chiefly reports of the hospital and orphan sections. Financial data for the Endowment appears in a separate pamphlet entitled *Financial Statements*; data are incomplete.
- Duke Endowment, Established by James B. Duke*. The Endowment, 1932. 89 pp. Text of Indenture, Doris Duke Trust, and Will, with laudatory remarks on the Endowment's history by William R. Perkins, personal counsel of Mr. Duke.

- EAST EUROPEAN FUND, *Third Annual Report*, March 1953-1954. New York, 1954. 86 pp. Reports operations of a special agency set up by the Ford Foundation in behalf of Soviet exiles. No further annual reports are expected, but a final summarizing report.
- EDWARDS SCHOLARSHIP FUND, *Report*. Boston, 1951. 12 pp. A brief ten-year report of a trust for scholarships.
- FALK (MAURICE AND LAURA) FOUNDATION, *Report of the Executive Director for 1953 and 1954*. Pittsburgh, 1955. 116 pp. This biennial report includes a twenty-five-year review as well as a two-year detailed report. The initial two-year report (1933) included observations of J. Steele Gow on policies and practices of foundations.
- FARM FOUNDATION, *The Farm Foundation Story: The First Twenty Years*. Chicago, 1954 (?). 19 pp. Illustrated story of the foundation—origin, development, work—from 1935 through 1954. A ten-year record was published in 1943.
- FELS (SAMUEL S.) FUND, *Samuel S. Fels Fund: A Report from Its Inception to December 31, 1951*. Philadelphia, 1952. 75 pp. Historical sketch of the Fund and its founder, with description of grants, policies, finances at the close of 1951.
- FIELD FOUNDATION, *A Review of Its Activities for the Year Ended September 30, 1955*. New York. 45 pp. Report on grants arranged by fields, with some background. The first (1949) annual report covered the initial nine years.
- FORD FOUNDATION, *The Ford Foundation Report for 1954*. New York, 1955. 114 pp. Detailed accounting of the vast program of this foundation for the period indicated—first nine months of 1954.
- FOUNDATION FOR RESEARCH ON HUMAN BEHAVIOR, *Annual Report for the Fiscal Year July 1, 1953-June 30, 1954*. Ann Arbor, 1954. 23 pp. First generally distributed report of this new "foundation" which is in part a fund-raising organization.
- FOUNDATIONS' FUND FOR RESEARCH IN PSYCHIATRY, *First Annual Report for the Year Ending June 30, 1954*. New Haven, 1954. 44 pp. This first report includes details of organization, declaration of trust, purposes, and early activities of this fund hoping to accumulate grants from foundations for use in its specified field.
- FUND FOR ADULT EDUCATION, *Annual Report, July 1, 1953 to June 30, 1954*. Pasadena, 1955. 39 pp. Reports the first year of activity of a Fund set up as an independent entity by the Ford Foundation.

- FUND FOR THE ADVANCEMENT OF EDUCATION, *A Report for 1952-1954*. New York. 127 pp. A full report, with some general observations on educational problems. An earlier report covered 1951-1952.
- FUND FOR THE REPUBLIC, *Report of the Fund for the Republic*, May 31, 1955. Pasadena, 1955. 46 pp. The first report of this Fund, including statements of policies and early activities.
- GENERAL EDUCATION BOARD, *Annual Report, 1953*. New York. 57 pp. A brief report, since the Board is in liquidation. In 1915 the Board published an account of its activities, 1902-1914; the 1947-1948 report also included an historical resumé from founding until that date; a final history is now in preparation.
- GEORGIA WARM SPRINGS FOUNDATION, *Annual Report for the Year Ended September 30, 1951*. Warm Springs, 1951. 22 pp. Brief report of an organization supported chiefly by patient payments, with some foundation characteristics. A Twentieth Anniversary Report was issued in 1947.
- GRANT FOUNDATION, *Report for the Years Ended October 31, 1951 and October 31, 1952*. New York. 64 pp. A biennial report, with detailed description of projects together with some of the findings. Financial summary for both the biennium and the whole foundation history.
- GUGGENHEIM (JOHN SIMON) MEMORIAL FOUNDATION, *1951 and 1952, Reports of the Secretary and of the Treasurer*. New York. 286 pp. Includes biographies of appointees for the biennium reported, an index of fellows, and financial data.
- HARRISON (THOMAS SKELTON) FOUNDATION, *Report for 1949-51*. Philadelphia, 1952. 15 pp. Brief report of a small foundation with a program of unusual type.
- HARTFORD FOUNDATION FOR PUBLIC GIVING, *Report for 1954*. Hartford. 13 pp. Informative booklet with promotional tone, including a report on disbursements.
- HAYDEN (CHARLES) FOUNDATION, *The Story of the Charles Hayden Foundation*. New York, 1952. 71 pp. A highly illustrated history of fifteen years, with partial list of grants; little financial data.
- HAZEN (EDWARD W.) FOUNDATION, *The Edward W. Hazen Foundation, 1953-1954*. New Haven. 23 pp. Activities and general background of studies. A twenty-five year report was published in 1950; the first report in 1930.
- HEINZ (HOWARD) ENDOWMENT, *A report of its work to December 31, 1950*. Pittsburgh. 40 pp. This report covers the 1941-1950 period,

with some historical notes and a financial statement for the 1950 year. Illustrated.

HILL (LOUIS W. AND MAUD) FAMILY FOUNDATION, *Report for the Fiscal Year March 1, 1954 to March 1, 1955*. St. Paul. 27 pp. Formerly the Lexington Foundation. The period 1935-1953 was briefly covered in the first annual report, for 1953.

HILLMAN (SIDNEY) FOUNDATION, *The Sidney Hillman Foundation: A Record of Service to the Community*. New York, 1954. 103 pp. First activities of this labor-supported foundation, with addresses of Hillman Award recipients.

HOGG FOUNDATION FOR MENTAL HYGIENE, *Twelve Years of Mental Health Work in Texas*. Austin, 1953. 37 pp. This organization, associated with the University of Texas, describes the area in which it works, and invites outside funds.

INDEPENDENT AID. *See under* present name, Duke (Doris) Foundation.

INDIANAPOLIS FOUNDATION, *For a Better City: The Annual Report of the Indianapolis Foundation for the year 1954*. Indianapolis, 1954. 4 pp. A brief report, with title changed annually. The first such report covered the four years, 1924 through 1927.

IRAN FOUNDATION, *The Iran Foundation, 1948-1955*. New York, 1955. 24 pp. Biennial reports began in 1949. This is a summary report of a foundation set up both in Iran and the United States "for advancement of health and education in Iran."

JAMES FOUNDATION OF NEW YORK, *Report for 1954*. New York. 24 pp. The initial ten-year report, covering 1941 through 1951, included a brief statement on history and policy.

KANSAS CITY ASSOCIATION OF TRUSTS AND FOUNDATIONS, *Report for 1952 and 1953*. Kansas City, 1954. 40 pp. The consolidated reports of the four member funds are included in this report of an interesting experiment in foundation cooperation.

KELLOGG (W. K.) FOUNDATION, *Report for 1953-1954*. Battle Creek. 127 pp. A very full, illustrated report. An account of the early years was published in *The First Eleven Years, 1930-1941*.

KIFT (ROBERT L.)—THOMAS R. MULLEN, JR. MEMORIAL FOUNDATION, *Objectives and Activities, 1949-1953*. Allentown, 1953. 32 pp. Brief report of a corporation foundation with some observations on advantages of such an organization.

- KOSCIUSZKO FOUNDATION, *The Kosciuszko Foundation Reports, 1948-1952*, and *A Review of the First Quarter Century*. New York. 35 pp. Reports are issued at two to four-year intervals. This four-year report covers also a brief summary of activities 1925-1950.
- KRESGE FOUNDATION, *The First Thirty Years, 1924-1953*. Detroit, 1954. 67 pp. Brief, illustrated record of the Foundation, including financial data and a biographical sketch of Sebastian Sperring Kresge.
- LXINGTON FOUNDATION. Name changed to Louis W. and Maud Hill Family Foundation in 1950, *which see*.
- LILLY ENDOWMENT, *A Report for 1954*. Indianapolis. 36 pp. Clear, informing, illustrated.
- LULING FOUNDATION, *The Luling Foundation, 1927-1948*. Luling, Tex., 1948. 36 pp. Story of a foundation in the form of an endowed, experimental farm. Illustrated. Little financial data.
- MAGY (JOSIAH), JR. FOUNDATION, *The Josiah Macy, Jr. Foundation, 1930-1955: A Review of Activities*. New York, 1955. 174 pp. Earlier reports, issued irregularly, include a report for 1930-1931; for six years ending with 1936; for four years ending with 1940; a twentieth anniversary review in 1950.
- MARKLE (JOHN AND MARY R.) FOUNDATION, *1954-55 Annual Report*. New York, 1955. 72 pp. Full report, with commentary.
- MCCORMICK (ELIZABETH) MEMORIAL FUND, *The Story of Forty-Five Years*. Chicago, 1954. 56 pp. A brief history of operations over a long period, with current financial data.
- MCGREGOR FUND, *A Three-Year Report of Activities Ending June 30, 1952*. Detroit, 1953. 27 pp. Fourth report. The first covered 1931-1937; the second 1938-1939; the third 1940-1949.
- MELLON (THE A. W.) EDUCATIONAL AND CHARITABLE TRUST, *A Report of Its Work for the Year 1954*. Pittsburgh. 18 pp. A fifteen-year report covered 1930-1945, a five-year report 1946-1950, and annual reports have been issued since 1950.
- MENNINGER FOUNDATION, *Report of Progress from July 1, 1953 through June 30, 1954*. Topeka. 37 pp. A full, illustrated report encouraging further contributions.
- MILBANK MEMORIAL FUND, *Grants, Fellowships and Other Appropriations in 1953-1954*. New York, 1955. 24 pp. This report is supplemented by information available in the Fund's *Quarterly. Thirty-Five Years in Review* was published in 1940.



- NATIONAL SCIENCE FOUNDATION, *Fourth Annual Report* for the Fiscal Year Ending June 30, 1954. Government Printing Office, Washington, 1954. 138 pp. A detailed report, with observations on national implications.
- NEW HAVEN FOUNDATION, *Annual Report* for the Year Ending December 31, 1954. New Haven, 1955. 23 pp. Illustrated, simply written, designed to attract additional gifts.
- NEW YORK COMMUNITY TRUST, *All Through the Years*. New York, 1955. 48 pp. Each annual report (this one covers 1954) bears a different title. Chatty, informative, full financial details.
- NEW YORK FOUNDATION, *Four Year Report, 1950-1953*. New York. 48 pp. This four-year report was preceded by a *Forty Year Report of the New York Foundation* published in 1949.
- NUTRITION FOUNDATION, THE, *Report of the Scientific Director, 1954*. New York. 71 pp. A descriptive, illustrated report of work done by a "foundation" largely supported by annual grants from food industry firms.
- OBERLAENDER TRUST. Liquidated in 1953. Its previous reports were usually included with those of the Carl Schurz Memorial Foundation, of which it was an integral part.
- OLD DOMINION FOUNDATION, *Report of Old Dominion Foundation, Inc., 1941-1950*. New York. 33 pp. A brief report of activities for the first decade.
- PEABODY EDUCATION FUND, *Proceedings of the Trustees of the Peabody Education Fund* from Their Original Organization on the 8th of February, 1867. Vol. I. John Wilson & Son, Boston, 1875. 442 pp. Annual Proceedings were distributed in pamphlet form, then reprinted in collected volumes—I, 1867-1874; II, 1875-1881; III, 1881-1887; IV, 1888-1892; V, 1893-1899; VI, 1900-1914. For a history, see Curry in the general bibliography.
- PERMANENT CHARITY FUND, COMMITTEE OF THE, *Thirty-Eighth Year Book*, July 1, 1954-June 30, 1955. Boston. 20 pp. Attractively illustrated, this community trust report encourages further contributions.
- PHELPS-STOKES FUND, *Progress in Negro Status and Race Relations*. New York, 1948. 219 pp. This is the thirty-five year (1911-1946) report of the Fund. Earlier reports were *Educational Adaptations* covering the first ten years of work, and the *Twenty Year Report*.

- PHILADELPHIA FOUNDATION, *Report, 1918-1954*. Fidelity-Philadelphia Trust Co., Philadelphia. 16 pp. Brief annual report, eleventh in the series, which also covers expenditures for the entire period.
- PICKER (JAMES) FOUNDATION FOR RADIOLOGICAL RESEARCH, *Annual Report, 1955*. New York, 1955. 35 pp. Summary of grant and fellowship awards with filing instructions and application forms.
- PITCAIRN-CRABBE FOUNDATION, *Report of Its Work to December 31, 1951*. Pittsburgh. 34 pp. A ten-year report of a small foundation that includes religion and palliative giving in its program.
- PITTSBURGH FOUNDATION, *Ninth Annual Report of the Pittsburgh Foundation for the Year 1954*. Pittsburgh, 1955. 36 pp. A well-presented annual report of community trust operation.
- PRENTISS (ELISABETH SEVERANCE) FOUNDATION, *Report, Volume V*. National City Bank of Cleveland, Cleveland, 1955. 18 pp. This biennial report lists grants and briefly describes program.
- RACKHAM (HORACE H. AND MARY A. RACKHAM) FUND, *Horace H. Rackham and Mary A. Rackham Fund*, Detroit and Ann Arbor, 1934-1940. Edited by Frances H. Miner. Ann Arbor, 1940. 60 pp. The official history of this short-lived Fund which disbursed some \$14 million. Illustrated.
- RESEARCH CORPORATION, *Annual Report for the Year 1954*. New York. 69 pp. Report on the combined grant-making and business operations of a unique "foundation." Grants listed, but amounts not given; limited financial data.
- RESEARCH FOUNDATION OF STATE UNIVERSITY OF NEW YORK, *2nd Annual Report, 1953*. Albany. 16 pp. Report of a separately incorporated "foundation" that is in other respects the university research division.
- RHODE ISLAND FOUNDATION, *Annual Report for the Year 1954*. Providence. 20 pp. Annual report of a community trust, illustrated, designed to encourage further gifts.
- ROCKEFELLER BROTHERS FUND, *A Three-year Report*. New York. 15 pp. This initial public report covering years 1951-1953 records also marked changes in policy as this foundation received substantial capital assets.
- ROCKEFELLER FOUNDATION, THE, *Annual Report, 1954*. New York, 1955. 439 pp. A voluminous, highly informing, model report, illustrated.

- ROCKEFELLER (LAURA SPELMAN) MEMORIAL, *Final Report*. New York, 1933. 24 pp. Historical survey from 1922 until consolidation with The Rockefeller Foundation in 1929. "The purpose is to give an account which will be concerned more with spirit and objectives than with statistics and financial statements." See annual reports for the latter. The first report was in 1923, covering 1919 through 1922.
- ROSENBERG FOUNDATION, *Rosenberg Foundation, 1937-1946: Ten Years of Community Service*. San Francisco, 1947. 38 pp. Reports on grants for a ten-year period, and describes policies and early history of the Foundation. Illustrated. A new report is in preparation.
- ROSENWALD (JULIUS) FUND, *Review of Two Decades, 1917-1936*. By Edwin R. Embree. Chicago, 1936. 55 pp. Excellent running account of first two decades of this Fund. For complete history, see Embree and Waxman, in the general bibliography.
- SAGE (RUSSELL) FOUNDATION, *Annual Report, 1953-1954*. New York, 1955. 56 pp. The series of annual reports began in 1947-1948. For the earlier period, see the two-volume history by Glenn, Brandt, and Andrews in the general bibliography.
- SCAIFE (SARAH MELLON) FOUNDATION, *A Review of its Activities from January 1, 1953 to December 31, 1953*. Pittsburgh, 1954. 39 pp. This annual report includes a cumulative grant record, 1941-1953.
- SCHLIEDER (EDWARD G.) EDUCATIONAL FOUNDATION, *Report of the President for the Year Ended December 31, 1954*. New Orleans. 24 pp. Example of reporting by a small foundation limited both geographically and by area of interest.
- SCHURZ (CARL) MEMORIAL FOUNDATION, *Reports, 1952-1954*. Philadelphia. 19 pp. Combined reports are published in pamphlet form. The 1952 pamphlet covered the seven years May 1, 1945 to April 30, 1952. See under Doll in the general bibliography for the new 25-year report.
- SLATER (JOHN F.) FUND, *Proceedings and Reports*. Reports issued annually from founding in 1882. Consolidated with Southern Education Foundation in 1937, which see.
- SLOAN (ALFRED P.) FOUNDATION, *Report for 1953-1954*. New York, 1955. 127 pp. Illustrated report of two years' operation of a foundation that emphasizes the need for public understanding of foundations.

SMITH CHARITIES, *One Hundred Seventh Annual Report* of the Trustees of the Smith Charities. Northampton, Mass., May 4, 1955. 10 pp. Largely financial report of a \$2 million charitable trust (at present worth) founded more than a century ago.

SMITHSONIAN INSTITUTION. *See* United States National Museum.

SOUTHERN EDUCATION FOUNDATION, *Biennial Report for 1950-51-1951-52*. New York. 112 pp. Describes origin of the Foundation through amalgamation of Peabody Education Fund, John F. Slater Fund, Anna T. Jeanes Fund, and Virginia Randolph Fund. This is the first published report.

SPELMAN FUND OF NEW YORK, *Final Report*. New York, 1949. 27 pp. Historical summary of the work of a foundation centering its program on public administration. Includes financial data for the final year of operation.

TREXLER FOUNDATION, *A Ten Year Report of Activities*, April 1, 1945 to March 31, 1955. Allentown, 1955. 48 pp. Previously known as the Harry C. and Mary M. Trexler Estates, this organization issued an earlier report from its founding in 1933 through March, 1945.

TWENTIETH CENTURY FUND, *Annual Report, 1954*. New York, 1955. 62 pp. The full report of an operating foundation, handsomely printed and illustrated.

UNITED STATES NATIONAL MUSEUM (Smithsonian Institution), *Annual Report* for the Year Ended June 30, 1954. The Museum, Washington, 1954. 100 pp. The Smithsonian is now a collection of activities in science and the arts, of which the United States National Museum is perhaps the best known.

VIKING FUND. *See* Wenner-Gren Foundation.

WATUMULL FOUNDATION. *Report, 1953-1955*. Honolulu, 1955. 16 pp. Brief report of a foundation specializing in relations with India. No financial data included.

WENNER-GREN FOUNDATION FOR ANTHROPOLOGICAL RESEARCH, *Report on the Foundation's Activities* for the Year Ended January 31, 1955. New York. 84 pp. This foundation was formerly known as the Viking Fund, under which name it began reporting in 1942.

WHITE-WILLIAMS FOUNDATION, *Five Years' Review for the Period Ending December 31, 1921*. Philadelphia, 1922. 15 pp. A descriptive report of a foundation that seeks additional funds for its work. Formerly the Magdalen Society of Philadelphia.

- WHITNEY BENEFITS, *Annual Report, 1954*. Sheridan, Wyo. 4 pp. Brief, largely statistical report on a student loan program.
- WHITNEY (HELEN HAY) FOUNDATION, *Second Report, for the Years 1950-1954*. New York. 60 pp. The initial report covered 1947-1949. Biennial reports are now planned.
- WHITNEY (WILLIAM C.) FOUNDATION, *Tenth Report, 1952 and 1953*. New York. 4 pp. Contains brief introductory statement and list of grants only.
- WIEBOLDT FOUNDATION, *Annual Report for the Year Ended December 31, 1954*. Evanston, Ill. 25 pp. The 1946 *Annual Report* included a review of the "first quarter century" of the Foundation.
- WILDER (AMHERST H.) CHARITY, *Report for the Biennium Ending June 30th, 1949*. St. Paul, 1950. 7 pp. Brief report of an operating foundation established in 1906. A *Résumé, 1906-1952* gave a short history of activities and some financial data.
- WOODROW WILSON FOUNDATION, *Report for the Years 1951-1953*. New York. 31 pp. The latest report outlines a substantial policy change.
- WORLD PEACE FOUNDATION. Printed reports published for the years 1912-1916; none published since 1916.



## A P P E N D I X B

### SELECTIONS FROM THE INTERNAL REVENUE CODE OF 1954

*[This Appendix excerpts from the Revenue Code of 1954 the sections concerning foundations, including tax deductibility for donors, exempt status of the foundation itself, and reporting requirements.]*

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## SUBTITLE A. INCOME TAXES

## CHAPTER 1. NORMAL TAXES AND SURTAXES

*Subchapter B. Computation of Taxable Income*

## SEC. 117. SCHOLARSHIPS AND FELLOWSHIP GRANTS

(a) GENERAL RULE.—In the case of an individual, gross income does not include—

(1) any amount received—

(A) as a scholarship at an educational institution (as defined in section 151 (e) (4) ), or

(B) as a fellowship grant,

including the value of contributed services and accommodations; and

(2) any amount received to cover expenses for—

(A) travel,

(B) research,

(C) clerical help, or

(D) equipment,

which are incident to such a scholarship or to a fellowship grant, but only to the extent that the amount is so expended by the recipient.

(b) LIMITATIONS.—

(1) INDIVIDUALS WHO ARE CANDIDATES FOR DEGREES.—In the case of an individual who is a candidate for a degree at an educational institution (as defined in section 151 (e) (4) ), subsection (a) shall not apply to that portion of any amount received which represents payment for teaching, research, or other services in the nature of part-time employment required as a condition to receiving the scholarship or the fellowship grant. If teaching, research, or other services are required of all candidates (whether or not recipients of scholarships or fellowship grants) for a particular degree as a condition to receiving such degree, such teaching, research, or other services shall not be regarded as part-time employment within the meaning of this paragraph.

(2) INDIVIDUALS WHO ARE NOT CANDIDATES FOR DEGREES.—In the case of an individual who is not a candidate for a degree at an educational institution (as defined in section 151 (e) (4) ), subsection (a) shall apply only if the condition in subparagraph (A) is satisfied and then only within the limitations provided in subparagraph (B).

(A) CONDITIONS FOR EXCLUSION.—The grantor of the scholarship or fellowship grant is an organization described in section 501 (c) (3) which is exempt from tax under section 501 (a), the United States,

or an instrumentality or agency thereof, or a State, a Territory, or a possession of the United States, or any political subdivision thereof, or the District of Columbia.

(B) EXTENT OF EXCLUSION.—The amount of the scholarship or fellowship grant excluded under subsection (a) (1) in any taxable year shall be limited to an amount equal to \$300 times the number of months for which the recipient received amounts under the scholarship or fellowship grant during such taxable year, except that no exclusion shall be allowed under subsection (a) after the recipient has been entitled to exclude under this section for a period of 36 months (whether or not consecutive) amounts received as a scholarship or fellowship grant while not a candidate for a degree at an educational institution (as defined in section 151 (e) (4)).

SEC. 170. CHARITABLE, ETC., CONTRIBUTIONS AND GIFTS

(a) ALLOWANCE OF DEDUCTION.—

(1) GENERAL RULE.—There shall be allowed as a deduction any charitable contribution (as defined in subsection (c)) payment of which is made within the taxable year. A charitable contribution shall be allowable as a deduction only if verified under regulations prescribed by the Secretary or his delegate.

(2) CORPORATIONS ON ACCRUAL BASIS.—In the case of a corporation reporting its taxable income on the accrual basis, if—

(A) the board of directors authorizes a charitable contribution during any taxable year, and

(B) payment of such contribution is made after the close of such taxable year and on or before the 15th day of the third month following the close of such taxable year, then the taxpayer may elect to treat such contribution as paid during such taxable year. The election may be made only at the time of the filing of the return for such taxable year, and shall be signified in such manner as the Secretary or his delegate shall by regulations prescribe.

(b) LIMITATIONS.—

(1) INDIVIDUALS.—In the case of an individual the deduction provided in subsection (a) shall be limited as provided in subparagraphs (A), (B), (C), and (D).

(A) SPECIAL RULE.—Any charitable contribution to—

(i) a church or a convention or association of churches,

(ii) an educational organization referred to in section 503 (b) (2), or

(iii) a hospital referred to in section 503 (b) (5), shall be allowed to the extent that the aggregate of such contribu-

tions does not exceed 10 percent of the taxpayer's adjusted gross income computed without regard to any net operating loss carryback to the taxable year under section 172.

(B) GENERAL LIMITATION.—The total deductions under subsection (a) for any taxable year shall not exceed 20 percent of the taxpayer's adjusted gross income computed without regard to any net operating loss carryback to the taxable year under section 172. For purposes of this subparagraph, the deduction under subsection (a) shall be computed without regard to any deduction allowed under subparagraph (A) but shall take into account any charitable contributions to the organizations described in clauses (i), (ii), and (iii) which are in excess of the amount allowable as a deduction under subparagraph (A).

(C) UNLIMITED DEDUCTION FOR CERTAIN INDIVIDUALS.—The limitation in subparagraph (B) shall not apply in the case of an individual if, in the taxable year and in 8 of the 10 preceding taxable years, the amount of the charitable contributions, plus the amount of income tax (determined without regard to chapter 2, relating to tax on self-employment income) paid during such year in respect of such year or preceding taxable years, exceeds 90 percent of the taxpayer's taxable income for such year, computed without regard to—

- (i) this section,
- (ii) section 151 (allowance of deductions for personal exemptions), and
- (iii) any net operating loss carryback to the taxable year under section 172.

(D) DENIAL OF DEDUCTION IN CASE OF CERTAIN TRANSFERS IN TRUST.—No deduction shall be allowed under this section for the value of any interest in property transferred after March 9, 1954, to a trust if—

- (i) the grantor has a reversionary interest in the corpus or income of that portion of the trust with respect to which a deduction would (but for this subparagraph) be allowable under this section; and
- (ii) at the time of the transfer the value of such reversionary interest exceeds 5 percent of the value of the property constituting such portion of the trust.

For purposes of this subparagraph, a power exercisable by the grantor or a nonadverse party (within the meaning of section 672 (b) ), or both, to revest in the grantor property or income therefrom shall be treated as a reversionary interest.



(2) CORPORATIONS.—In the case of a corporation, the total deductions under subsection (a) for any taxable year shall not exceed 5 percent of the taxpayer's taxable income computed without regard to—

- (A) this section,
- (B) part VIII (except section 248),
- (C) any net operating loss carryback to the taxable year under section 172, and
- (D) section 922 (special deduction for Western Hemisphere trade corporations).

Any contribution made by a corporation in a taxable year to which this section applies in excess of the amount deductible in such year under the foregoing limitation shall be deductible in each of the two succeeding taxable years in order of time, but only to the extent of the lesser of the two following amounts: (i) the excess of the maximum amount deductible for such succeeding taxable year under the foregoing limitation over the contributions made in such year; and (ii) in the case of the first succeeding taxable year the amount of such excess contribution, and in the case of the second succeeding taxable year the portion of such excess contribution not deductible in the first succeeding taxable year.

(c) CHARITABLE CONTRIBUTION DEFINED.—For purposes of this section, the term “charitable contribution” means a contribution or gift to or for the use of—

(1) A State, a Territory, a possession of the United States, or any political subdivision of any of the foregoing, or the United States or the District of Columbia, but only if the contribution or gift is made for exclusively public purposes.

(2) A corporation, trust, or community chest, fund, or foundation—

(A) created or organized in the United States or in any possession thereof, or under the law of the United States, any State or Territory, the District of Columbia, or any possession of the United States;

(B) organized and operated exclusively for religious, charitable, scientific, literary, or educational purposes or for the prevention of cruelty to children or animals;

(C) no part of the net earnings of which inures to the benefit of any private shareholder or individual; and

(D) no substantial part of the activities of which is carrying on propaganda, or otherwise attempting, to influence legislation.

A contribution or gift by a corporation to a trust, chest, fund, or foundation shall be deductible by reason of this paragraph only if it is to be used within the United States or any of its possessions exclusively for purposes specified in subparagraph (B).

(3) A post or organization of war veterans, or an auxiliary unit or society of, or trust or foundation for, any such post or organization—

(A) organized in the United States or any of its possessions, and

(B) no part of the net earnings of which inures to the benefit of any private shareholder or individual.

(4) In the case of a contribution or gift by an individual, a domestic fraternal society, order, or association, operating under the lodge system, but only if such contribution or gift is to be used exclusively for religious, charitable, scientific, literary, or educational purposes, or for the prevention of cruelty to children or animals.

(5) A cemetery company owned and operated exclusively for the benefit of its members, or any corporation chartered solely for burial purposes as a cemetery corporation and not permitted by its charter to engage in any business not necessarily incident to that purpose, if such company or corporation is not operated for profit and no part of the net earnings of such company or corporation inures to the benefit of any private shareholder or individual.

(d) **DISALLOWANCE OF DEDUCTIONS IN CERTAIN CASES.**—

(1) For disallowance of deductions in case of contributions or gifts to charitable organizations engaging in prohibited transactions, see section 503 (e).

(2) For disallowance of deductions for contributions to or for the use of communist controlled organizations, see section 11 (a) of the Internal Security Act of 1950 (64 Stat. 996; 50 U. S. C. 790).

### *Subchapter F. Exempt Organizations*

#### **SEC. 501. EXEMPTION FROM TAX ON CORPORATIONS, CERTAIN TRUSTS, ETC.**

(a) **EXEMPTION FROM TAXATION.**—An organization described in subsection (c) or (d) or section 401 (a) shall be exempt from taxation under this subtitle unless such exemption is denied under section 502, 503, or 504.

(b) **TAX ON UNRELATED BUSINESS INCOME.**—An organization exempt from taxation under subsection (a) shall be subject to tax to the extent provided in part II of this subchapter (relating to tax on unrelated

income), but, notwithstanding part II, shall be considered an organization exempt from income taxes for the purpose of any law which refers to organizations exempt from income taxes.

(c) LIST OF EXEMPT ORGANIZATIONS.—The following organizations are referred to in subsection (a):

\* \* \* \* \*

(3) Corporations, and any community chest, fund, or foundation, organized and operated exclusively for religious, charitable, scientific, *testing for public safety*,<sup>1</sup> literary, or educational purposes, or for the prevention of cruelty to children or animals, no part of the net earnings of which inures to the benefit of any private shareholder or individual, no substantial part of the activities of which is carrying on propaganda, or otherwise attempting, to influence legislation, *and which does not participate in, or intervene in (including the publishing or distributing of statements), any political campaign on behalf of any candidate for public office.*

\* \* \* \* \*

#### SEC. 502. FEEDER ORGANIZATIONS

An organization operated for the primary purpose of carrying on a trade or business for profit shall not be exempt under section 501 on the ground that all of its profits are payable to one or more organizations exempt under section 501 from taxation. For purposes of this section, the term "trade or business" shall not include the rental by an organization of its real property (including personal property leased with the real property).

#### SEC. 503. REQUIREMENTS FOR EXEMPTION

(a) DENIAL OF EXEMPTION TO ORGANIZATIONS ENGAGED IN PROHIBITED TRANSACTIONS.—

(1) GENERAL RULE.—An organization described in section 501 (c) (3) which is subject to the provisions of this section shall not be exempt from taxation under section 501 (a) if it has engaged in a prohibited transaction after July 1, 1950; and an organization described in section 401 (a) which is subject to the provisions of this section shall not be exempt from taxation under section 501 (a) if it has engaged in a prohibited transaction after March 1, 1954.

(2) TAXABLE YEARS AFFECTED.—An organization described in section 501 (c) (3) or section 401 (a) shall be denied exemption from taxation under section 501 (a) by reason of paragraph (1) only for taxable years after the taxable year during which it is notified by the

<sup>1</sup> Italics added, to indicate additions to the previous Section 101 (6).

Secretary or his delegate that it has engaged in a prohibited transaction, unless such organization entered into such prohibited transaction with the purpose of diverting corpus or income of the organization from its exempt purposes, and such transaction involved a substantial part of the corpus or income of such organization.

(b) **ORGANIZATIONS TO WHICH SECTION APPLIES.**—This section shall apply to any organization described in section 501 (c) (3) or section 401 (a) except—

(1) a religious organization (other than a trust);

(2) an educational organization which normally maintains a regular faculty and curriculum and normally has a regularly enrolled body of pupils or students in attendance at the place where its educational activities are regularly carried on;

(3) an organization which normally receives a substantial part of its support (exclusive of income received in the exercise or performance by such organization of its charitable, educational, or other purpose or function constituting the basis for its exemption under section 501 (a) ) from the United States or any State or political subdivision thereof or from direct or indirect contributions from the general public;

(4) an organization which is operated, supervised, controlled, or principally supported by a religious organization (other than a trust) which is itself not subject to the provisions of this section; and

(5) an organization the principal purposes or functions of which are the providing of medical or hospital care or medical education or medical research or agricultural research.

(c) **PROHIBITED TRANSACTIONS.**—For purposes of this section, the term “prohibited transaction” means any transaction in which an organization subject to the provisions of this section—

(1) lends any part of its income or corpus, without the receipt of adequate security and a reasonable rate of interest, to;

(2) pays any compensation, in excess of a reasonable allowance for salaries or other compensation for personal services actually rendered, to;

(3) makes any part of its services available on a preferential basis to;

(4) makes any substantial purchase of securities or any other property, for more than adequate consideration in money or money's worth, from;

(5) sells any substantial part of its securities or other property, for less than an adequate consideration in money or money's worth, to;  
or

(6) engages in any other transaction which results in a substantial diversion of its income or corpus to;

the creator of such organization (if a trust); a person who has made a substantial contribution to such organization; a member of the family (as defined in section 267 (c) (4) ) of an individual who is the creator of such trust or who has made a substantial contribution to such organization; or a corporation controlled by such creator or person through the ownership, directly or indirectly, of 50 percent or more of the total combined voting power of all classes of stock entitled to vote or 50 percent or more of the total value of shares of all classes of stock of the corporation.

(d) FUTURE STATUS OF ORGANIZATIONS DENIED EXEMPTION.—Any organization described in section 501 (c) (3) or section 401 (a) which is denied exemption under section 501 (a) by reason of subsection (a) of this section, with respect to any taxable year following the taxable year in which notice of denial of exemption was received, may, under regulations prescribed by the Secretary or his delegate, file claim for exemption, and if the Secretary or his delegate, pursuant to such regulations, is satisfied that such organization will not knowingly again engage in a prohibited transaction, such organization shall be exempt with respect to taxable years after the year in which such claim is filed.

(e) DISALLOWANCE OF CERTAIN CHARITABLE, ETC., DEDUCTIONS.—No gift or bequest for religious, charitable, scientific, literary, or educational purposes (including the encouragement of art and the prevention of cruelty to children or animals), otherwise allowable as a deduction under section 170, 642 (c), 545 (b) (2), 2055, 2106 (a) (2), or 2522, shall be allowed as a deduction if made to an organization described in section 501 (c) (3) which, in the taxable year of the organization in which the gift or bequest is made, is not exempt under section 501 (a) by reason of this section. With respect to any taxable year of the organization for which the organization is not exempt pursuant to subsection (a) by reason of having engaged in a prohibited transaction with the purpose of diverting the corpus or income of such organization from its exempt purposes and such transaction involved a substantial part of such corpus or income, and which taxable year is the same, or prior to the, taxable year of the organization in which such transaction occurred, such deduction shall be disallowed the donor only if such donor or (if such donor is an individual) any member of his family (as defined in section 267 (c) (4) ) was a party to such prohibited transaction.

(f) DEFINITION.—For purposes of this section, the term “gift or bequest” means any gift, contribution, bequest, devise, legacy, or transfer.



## SEC. 504. DENIAL OF EXEMPTION

(a) GENERAL RULE.—In the case of any organization described in section 501 (c) (3) to which section 503 is applicable, exemption under section 501 shall be denied for the taxable year if the amounts accumulated out of income during the taxable year or any prior taxable year and not actually paid out by the end of the taxable year—

(1) are unreasonable in amount or duration in order to carry out the charitable, educational, or other purpose or function constituting the basis for exemption under section 501 (a) of an organization described in section 501 (c) (3); or

(2) are used to a substantial degree for purposes or functions other than those constituting the basis for exemption under section 501 (a) of an organization described in section 501 (c) (3); or

(3) are invested in such a manner as to jeopardize the carrying out of the charitable, educational, or other purpose or function constituting the basis for exemption under section 501 (a) of an organization described in section 501 (c) (3).

Paragraph (1) shall not apply to income attributable to property of a decedent dying before January 1, 1951, which is transferred under his will to a trust created by such will. In the case of a trust created by the will of a decedent dying on or after January 1, 1951, if income is required to be accumulated pursuant to the mandatory terms of the will creating the trust, paragraph (1) shall apply only to income accumulated during a taxable year of the trust beginning more than 21 years after the date of death of the last life in being designated in the trust instrument.

(b) CROSS REFERENCES.—

For limitation on charitable contributions in case of unreasonable accumulations by certain trusts, see section 681 (c) (2).

## SEC. 511. IMPOSITION OF TAX ON UNRELATED BUSINESS INCOME OF CHARITABLE, ETC., ORGANIZATIONS

(a) CHARITABLE, ETC., ORGANIZATIONS TAXABLE AT CORPORATION RATES.—

(1) IMPOSITION OF TAX.—There is hereby imposed for each taxable year on the unrelated business taxable income (as defined in section 512) of every organization described in paragraph (2) a normal tax and a surtax computed as provided in section 11. In making such computation for purposes of this section, the term "taxable income" as used in section 11 shall be read as "unrelated business taxable income."

(2) ORGANIZATIONS SUBJECT TO TAX.—

(A) ORGANIZATIONS DESCRIBED IN SECTION 501 (c) (2), (3), (5), AND (6), AND SECTION 401 (a).—The taxes imposed by paragraph (1) shall apply in the case of any organization (other than a church, a convention or association of churches, or a trust described in subsection (b) ) which is exempt, except as provided in this part, from taxation under this subtitle by reason of section 401 (a) or of paragraph (3), (5), or (6) of section 501 (c). Such taxes shall also apply in the case of a corporation described in section 501 (c) (2) if the income is payable to an organization which itself is subject to the taxes imposed by paragraph (1) or to a church or to a convention or association of churches.

(B) STATE COLLEGES AND UNIVERSITIES.—The taxes imposed by paragraph (1) shall apply in the case of any college or university which is an agency or instrumentality of any government or any political subdivision thereof, or which is owned or operated by a government or any political subdivision thereof, or by any agency or instrumentality of one or more governments or political subdivisions. Such taxes shall also apply in the case of any corporation wholly owned by one or more such colleges or universities.

(b) TAX ON CHARITABLE, ETC., TRUSTS.—

(1) IMPOSITION OF TAX.—There is hereby imposed for each taxable year on the unrelated business taxable income of every trust described in paragraph (2) a tax computed as provided in section 1. In making such computation for purposes of this section, the term “taxable income” as used in section 1 shall be read as “unrelated business taxable income” as defined in section 512.

(2) CHARITABLE, ETC., TRUSTS SUBJECT TO TAX.—The tax imposed by paragraph (1) shall apply in the case of any trust which is exempt, except as provided in this part, from taxation under this subtitle by reason of section 501 (c) (3) or section 401 (a) and which, if it were not for such exemption, would be subject to subchapter J (sec. 641 and following, relating to estates, trusts, beneficiaries, and decedents).

(c) EFFECTIVE DATE.—The tax imposed by this section shall apply, in the case of a trust described in section 401 (a), only for taxable years beginning after June 30, 1954.

SEC. 512. UNRELATED BUSINESS TAXABLE INCOME

(a) DEFINITION.—The term “unrelated business taxable income” means the gross income derived by any organization from any unrelated trade or business (as defined in section 513) regularly carried on by it, less the deductions allowed by this chapter which are directly con-

nected with the carrying on of such trade or business, both computed with the exceptions, additions, and limitations provided in subsection (b). In the case of an organization described in section 511 which is a foreign organization, the unrelated business taxable income shall be its unrelated business taxable income derived from sources within the United States determined under subchapter N (sec. 861 and following, relating to tax based on income from sources within or without the United States).

(b) EXCEPTIONS, ADDITIONS, AND LIMITATIONS.—The exceptions, additions, and limitations applicable in determining unrelated business taxable income are the following:

(1) There shall be excluded all dividends, interest, and annuities, and all deductions directly connected with such income.

(2) There shall be excluded all royalties (including overriding royalties) whether measured by production or by gross or taxable income from the property, and all deductions directly connected with such income.

(3) There shall be excluded all rents from real property (including personal property leased with the real property), and all deductions directly connected with such rents.

(4) Notwithstanding paragraph (3), in the case of a business lease (as defined in section 514) there shall be included, as an item of gross income derived from an unrelated trade or business, the amount ascertained under section 514 (a) (1), and there shall be allowed, as a deduction, the amount ascertained under section 514 (a) (2).

(5) There shall be excluded all gains or losses from the sale, exchange, or other disposition of property other than—

(A) stock in trade or other property of a kind which would properly be includible in inventory if on hand at the close of the taxable year, or

(B) property held primarily for sale to customers in the ordinary course of the trade or business.

This paragraph shall not apply with respect to the cutting of timber which is considered, on the application of section 631, as a sale or exchange of such timber.

(6) The net operating loss deduction provided in section 172 shall be allowed, except that—

(A) the net operating loss for any taxable year, the amount of the net operating loss carryback or carryover to any taxable year, and the net operating loss deduction for any taxable year shall be

determined under section 172 without taking into account any amount of income or deduction which is excluded under this part in computing the unrelated business taxable income; and

(B) the terms "preceding taxable year" and "preceding taxable years" as used in section 172 shall not include any taxable year for which the organization was not subject to the provisions of this part.

(7) There shall be excluded all income derived from research for (A) the United States, or any of its agencies or instrumentalities, or (B) any State or political subdivision thereof; and there shall be excluded all deductions directly connected with such income.

(8) In the case of a college, university, or hospital, there shall be excluded all income derived from research performed for any person, and all deductions directly connected with such income.

(9) In the case of an organization operated primarily for purposes of carrying on fundamental research the results of which are freely available to the general public, there shall be excluded all income derived from research performed for any person, and all deductions directly connected with such income.

(10) In the case of any organization described in section 511 (a), the deduction allowed by section 170 (relating to charitable etc. contributions and gifts) shall be allowed (whether or not directly connected with the carrying on of the trade or business), but shall not exceed 5 percent of the unrelated business taxable income computed without the benefit of this paragraph.

(11) In the case of any trust described in section 511 (b), the deduction allowed by section 170 (relating to charitable etc. contributions and gifts) shall be allowed (whether or not directly connected with the carrying on of the trade or business), and for such purpose a distribution made by the trust to a beneficiary described in section 170 shall be considered as a gift or contribution. The deduction allowed by this paragraph shall be allowed with the limitations prescribed in section 170 (b) (1) (A) and (B) determined with reference to the unrelated business taxable income computed without the benefit of this paragraph (in lieu of with reference to adjusted gross income).

(12) There shall be allowed a specific deduction of \$1,000.

(c) **SPECIAL RULES APPLICABLE TO PARTNERSHIPS.**—If a trade or business regularly carried on by a partnership of which an organization is a member is an unrelated trade or business with respect to such organization, such organization in computing its unrelated business taxable income shall, subject to the exceptions, additions, and limita-

tions contained in subsection (b), include its share (whether or not distributed) of the gross income of the partnership from such unrelated trade or business and its share of the partnership deductions directly connected with such gross income. If the taxable year of the organization is different from that of the partnership, the amounts to be so included or deducted in computing the unrelated business taxable income shall be based upon the income and deductions of the partnership for any taxable year of the partnership ending within or with the taxable year of the organization.

#### SEC. 513. UNRELATED TRADE OR BUSINESS

(a) **GENERAL RULE.**—The term “unrelated trade or business” means, in the case of any organization subject to the tax imposed by section 511, any trade or business the conduct of which is not substantially related (aside from the need of such organization for income or funds or the use it makes of the profits derived) to the exercise or performance by such organization of its charitable, educational, or other purpose or function constituting the basis for its exemption under section 501 (or, in the case of an organization described in section 511 (a) (2) (B), to the exercise or performance of any purpose or function described in section 501 (c) (3) ), except that such term does not include any trade or business—

(1) in which substantially all the work in carrying on such trade or business is performed for the organization without compensation; or

(2) which is carried on, in the case of an organization described in section 501 (c) (3) or in the case of a college or university described in section 511 (a) (2) (B), by the organization primarily for the convenience of its members, students, patients, officers, or employees; or

(3) which is the selling of merchandise, substantially all of which has been received by the organization as gifts or contributions.

(b) **SPECIAL RULE FOR TRUSTS.**—The term “unrelated trade or business” means, in the case of—

(1) a trust computing its unrelated business taxable income under section 512 for purposes of section 681; or

(2) a trust described in section 401 (a) which is exempt from tax under section 501 (a);

any trade or business regularly carried on by such trust or by a partnership of which it is a member.

(c) **SPECIAL RULE FOR CERTAIN PUBLISHING BUSINESSES.**—If a publishing business carried on by an organization during a taxable year beginning before January 1, 1953, is, without regard to this subsection,



an unrelated trade or business, but before the beginning of the third succeeding taxable year the business is carried on by it (or by a successor who acquired such business in a liquidation which would have constituted a tax-free exchange under section 112 (b) (6) of the Internal Revenue Code of 1939) in such manner that the conduct thereof is substantially related to the exercise or performance by such organization (or such successor) of its educational or other purpose or function described in section 501 (c) (3), such publishing business shall not be considered, for the taxable year, as an unrelated trade or business.

#### SEC. 514. BUSINESS LEASES

(a) **BUSINESS LEASE RENTS AND DEDUCTIONS.**—In computing under section 512 the unrelated business taxable income for any taxable year—

(1) **PERCENTAGE OF RENTS TAKEN INTO ACCOUNT.**—There shall be included with respect to each business lease, as an item of gross income derived from an unrelated trade or business, an amount which is the same percentage (but not in excess of 100 percent) of the total rents derived during the taxable year under such lease as (A) the business lease indebtedness, at the close of the taxable year, with respect to the premises covered by such lease is of (B) the adjusted basis, at the close of the taxable year, of such premises.

(2) **PERCENTAGE OF DEDUCTIONS TAKEN INTO ACCOUNT.**—There shall be allowed with respect to each business lease, as a deduction to be taken into account in computing unrelated business taxable income, an amount determined by applying the percentage derived under paragraph (1) to the sum determined under paragraph (3).

(3) **DEDUCTIONS ALLOWABLE.**—The sum referred to in paragraph (2) is the sum of the following deductions allowable under this chapter:

(A) Taxes and other expenses paid or accrued during the taxable year on or with respect to the real property subject to the business lease.

(B) Interest paid or accrued during the taxable year on the business lease indebtedness.

(C) A reasonable allowance for exhaustion, wear and tear (including a reasonable allowance for obsolescence) of the real property subject to such lease.

Where only a portion of the real property is subject to the business lease, there shall be taken into account under subparagraphs (A), (B), and (C) only those amounts which are properly allocable to the premises covered by such lease.

## (b) DEFINITION OF BUSINESS LEASE.—

(1) GENERAL RULE.—For purposes of this section, the term “business lease” means a lease for a term of more than 5 years of real property by an organization (or by a partnership of which it is a member), if at the close of the lessor’s taxable year there is a business lease indebtedness (as defined in subsection (c) ) with respect to such property.

(2) SPECIAL RULES FOR APPLYING PARAGRAPH (1).—For purposes of paragraph (1)—

(A) In computing the term of a lease which contains an option for renewal or extension, the term of such lease shall be considered as including any period for which such option may be exercised; and the term of any lease made pursuant to an exercise of such option shall include the period during which the prior lease was in effect. If real property is acquired subject to a lease, the term of such lease shall be considered to begin on the date of such acquisition.

(B) If the property has been occupied by the same lessee for a total period of more than 5 years commencing not earlier than the date of acquisition of the property by the organization or trust (whether such occupancy is under one or more leases, renewals, extensions, or continuations thereof), the occupancy of such lessee shall be considered to be under a lease for a term of more than 5 years within the meaning of paragraph (1). However, subsection (a) shall apply in the case of a tenancy described in this subparagraph (and not within subparagraph (A) ) only with respect to the sixth and succeeding years of occupancy by the same lessee. For purposes of this subparagraph, the term “same lessee” shall include any lessee of the property whose relationship with a lessee of the same property is such that losses in respect of sales or exchanges of property between the 2 lessees would be disallowed under section 267 (a).

## (3) EXCEPTIONS.—

(A) No lease shall be considered a business lease if—

(i) such lease is entered into primarily for purposes which are substantially related (aside from the need of such organization for income or funds or the use it makes of the rents derived) to the exercise or performance by such organization of its charitable, educational, or other purpose or function constituting the basis for its exemption under section 501, or

(ii) the lease is of premises in a building primarily designed for occupancy, and occupied, by the organization.

(B) If a lease for more than 5 years to a tenant is for only a portion of the real property, and space in the real property is rented during the taxable year under a lease for not more than 5 years to any other tenant of the organization, leases of the real property for more than 5 years shall be considered as business leases during the taxable year only if—

(i) the rents derived from the real property during the taxable year under leases for more than 5 years (not including, as a lease for more than 5 years, an occupancy which is considered as such a lease by reason of paragraph (2) (B) ) represent 50 percent or more of the total rents derived during the taxable year from the real property; or the area of the premises occupied under leases for more than 5 years (not including, as a lease for more than 5 years, an occupancy which is considered as such a lease by reason of paragraph (2) (B) ) represents, at any time during the taxable year, 50 percent or more of the total area of the real property rented at such time; or

(ii) the rent derived from the real property during the taxable year from any tenant under a lease for more than 5 years (including as a lease for more than 5 years an occupancy which is considered as such a lease by reason of paragraph (2) (B) ), or from a group of tenants (under such leases) who are either members of an affiliated group (as defined in section 1504) or partners, represents more than 10 percent of the total rents derived during the taxable year from such property; or the area of the premises occupied by any one such tenant, or by any such group of tenants, represents at any time during the taxable year more than 10 percent of the total area of the real property rented at such time.

In the application of clause (i), if during the last half of the term of a lease a new lease is made to take effect after the expiration of such lease, the unexpired portion of such lease on the date the second lease is made shall not be treated as a part of the term of the second lease.

(c) BUSINESS LEASE INDEBTEDNESS.—

(1) GENERAL RULE.—The term “business lease indebtedness” means, with respect to any real property leased for a term of more than 5 years, the unpaid amount of—

(A) the indebtedness incurred by the lessor in acquiring or improving such property;

(B) the indebtedness incurred before the acquisition or improvement of such property if such indebtedness would not have been incurred but for such acquisition or improvement; and

(C) the indebtedness incurred after the acquisition or improvement of such property if such indebtedness would not have been incurred but for such acquisition or improvement and the incurrence of such indebtedness was reasonably foreseeable at the time of such acquisition or improvement.

(2) **PROPERTY ACQUIRED SUBJECT TO MORTGAGE, ETC.**—Where real property is acquired subject to a mortgage or other similar lien, the amount of the indebtedness secured by such mortgage or lien shall be considered (whether the acquisition was by gift, devise, or purchase) as an indebtedness of the lessor incurred in acquiring such property even though the lessor did not assume or agree to pay such indebtedness, except that where real property was acquired by gift, bequest, or devise before July 1, 1950, subject to a mortgage or other similar lien, the amount of such mortgage or other similar lien shall not be considered as an indebtedness of the lessor incurred in acquiring such property.

(3) **CERTAIN PROPERTY ACQUIRED BY GIFT, ETC.**—Where real property was acquired by gift, bequest, or devise before July 1, 1950, subject to a lease requiring improvements in such property on the happening of stated contingencies, indebtedness incurred in improving such property in accordance with the terms of such lease shall not be considered as an indebtedness for purposes of this subsection.

(4) **CERTAIN CORPORATIONS DESCRIBED IN SECTION 501 (c) (2).**—In the case of a corporation described in section 501 (c) (2), all of the stock of which was acquired before July 1, 1950, by an organization described in paragraph (3), (5), or (6) of section 501 (c) (and more than one-third of such stock was acquired by such organization by gift or bequest), any indebtedness incurred by such corporation before July 1, 1950, and any indebtedness incurred by such corporation on or after such date in improving real property in accordance with the terms of a lease entered into before such date, shall not be considered as an indebtedness with respect to such corporation or such organization for purposes of this subsection.

\* \* \* \* \*

(6) **BUSINESS LEASE ON PORTION OF PROPERTY.**—In determining the amount of the business lease indebtedness where only a portion of the real property is subject to a business lease, proper allocation to the premises covered by such lease shall be made of the indebtedness incurred by the lessor with respect to the real property.

\* \* \* \* \*

(d) **PERSONAL PROPERTY LEASED WITH REAL PROPERTY.**—For purposes of this section, the term “real property” and the term “premises” include personal property of the lessor leased by it to a lessee of its real estate if the lease of such personal property is made under, or in connection with, the lease of such real estate.

#### SEC. 515. TAXES OF FOREIGN COUNTRIES AND POSSESSIONS OF THE UNITED STATES

The amount of taxes imposed by foreign countries and possessions of the United States shall be allowed as a credit against the tax of an organization subject to the tax imposed by section 511 to the extent provided in section 901; and in the case of the tax imposed by section 511, the term “taxable income” as used in section 901 shall be read as “unrelated business taxable income.”

#### *Subchapter G. Corporations Used to Avoid Income Tax on Shareholders*

#### SEC. 545. UNDISTRIBUTED PERSONAL HOLDING COMPANY INCOME

(a) **DEFINITION.**—For purposes of this part, the term “undistributed personal holding company income” means the taxable income of a personal holding company adjusted in the manner provided in subsection (b), minus the dividends paid deduction as defined in section 561.

(b) **ADJUSTMENTS TO TAXABLE INCOME.**—For the purposes of subsection (a), the taxable income shall be adjusted as follows:

\* \* \* \* \*

(2) **CHARITABLE CONTRIBUTIONS.**—The deduction for charitable contributions provided under section 170 shall be allowed but with the limitations in section 170 (b) (1) (A) and (B) (in lieu of the limitation in section 170 (b) (2) ). For purposes of this paragraph, the term “adjusted gross income” when used in section 170 (b) (1) means the taxable income computed with the adjustments provided in section 170 (b) (2) and without the deduction of the amount disallowed under paragraph (8) of this subsection.

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#### *Subchapter J. Estates, Trusts, Beneficiaries, and Decedents*

#### SEC. 642. SPECIAL RULES FOR CREDITS AND DEDUCTIONS

\* \* \* \* \*

(c) **DEDUCTION FOR AMOUNTS PAID OR PERMANENTLY SET ASIDE FOR A CHARITABLE PURPOSE.**—In the case of an estate or trust (other than a trust meeting the specifications of subpart B) there shall be allowed



as a deduction in computing its taxable income (in lieu of the deductions allowed by section 170 (a), relating to deduction for charitable, etc., contributions and gifts) any amount of the gross income, without limitation, which pursuant to the terms of the governing instrument is, during the taxable year, paid or permanently set aside for a purpose specified in section 170 (c), or is to be used exclusively for religious, charitable, scientific, literary, or educational purposes or for the prevention of cruelty to children or animals, or for the establishment, acquisition, maintenance or operation of a public cemetery not operated for profit. For this purpose, to the extent that such amount consists of gain from the sale or exchange of capital assets held for more than 6 months, proper adjustment of the deduction otherwise allowable under this subsection shall be made for any deduction allowable to the estate or trust under section 1202 (relating to deduction for excess of capital gains over capital losses). In the case of a trust, the deduction allowed by this subsection shall be subject to section 681 (relating to unrelated business income and prohibited transactions).

\* \* \* \* \*

#### SEC. 681. LIMITATION ON CHARITABLE DEDUCTION

(a) **TRADE OR BUSINESS INCOME.**—In computing the deduction allowable under section 642 (c) to a trust, no amount otherwise allowable under section 642 (c) as a deduction shall be allowed as a deduction with respect to income of the taxable year which is allocable to its unrelated business income for such year. For purposes of the preceding sentence, the term “unrelated business income” means an amount equal to the amount which, if such trust were exempt from tax under section 501 (a) by reason of section 501 (c) (3), would be computed as its unrelated business taxable income under section 512 (relating to income derived from certain business activities and from certain leases).

#### (b) **OPERATIONS OF TRUSTS.**—

(1) **LIMITATION ON CHARITABLE, ETC., DEDUCTION.**—The amount otherwise allowable under section 642 (c) as a deduction shall not exceed 20 percent of the taxable income of the trust (computed without the benefit of section 642 (c) but with the benefit of section 170 (b) (1) (A) ) if the trust has engaged in a prohibited transaction, as defined in paragraph (2).

(2) **PROHIBITED TRANSACTIONS.**—For purposes of this subsection, the term “prohibited transaction” means any transaction after July 1, 1950, in which any trust while holding income or corpus which has been permanently set aside or is to be used exclusively for charitable or other purposes described in section 642 (c)—

(A) lends any part of such income or corpus, without receipt of adequate security and a reasonable rate of interest, to;

(B) pays any compensation from such income or corpus, in excess of a reasonable allowance for salaries or other compensation for personal services actually rendered, to;

(C) makes any part of its services available on a preferential basis to;

(D) uses such income or corpus to make any substantial purchase of securities or any other property, for more than an adequate consideration in money or money's worth, from;

(E) sells any substantial part of the securities or other property comprising such income or corpus, for less than an adequate consideration in money or money's worth, to; or

(F) engages in any other transaction which results in a substantial diversion of such income or corpus to;

the creator of such trust; any person who has made a substantial contribution to such trust; a member of a family (as defined in section 267 (c) (4) ) of an individual who is the creator of the trust or who has made a substantial contribution to the trust; or a corporation controlled by any such creator or person through the ownership, directly or indirectly, of 50 percent or more of the total combined voting power of all classes of stock entitled to vote or 50 percent or more of the total value of shares of all classes of stock of the corporation.

(3) **TAXABLE YEARS AFFECTED.**—The amount otherwise allowable under section 642 (c) as a deduction shall be limited as provided in paragraph (1) only for taxable years after the taxable year during which the trust is notified by the Secretary that it has engaged in such transaction, unless such trust entered into such prohibited transaction with the purpose of diverting such corpus or income from the purposes described in section 642 (c), and such transaction involved a substantial part of such corpus or income.

(4) **FUTURE CHARITABLE, ETC., DEDUCTIONS OF TRUSTS DENIED DEDUCTION UNDER PARAGRAPH (3).**—If the deduction of any trust under section 642 (c) has been limited as provided in this subsection, such trust, with respect to any taxable year following the taxable year in which notice is received of limitation of deduction under section 642 (c), may, under regulations prescribed by the Secretary or his delegate, file claim for the allowance of the unlimited deduction under section 642 (c), and if the Secretary, pursuant to such regulations, is satisfied that such trust will not knowingly again engage in a prohibited transaction, the limitation provided in paragraph (1) shall

not apply with respect to taxable years after the year in which such claim is filed.

(5) **DISALLOWANCE OF CERTAIN CHARITABLE, ETC., DEDUCTIONS.**—No gift or bequest for religious, charitable, scientific, literary, or educational purposes (including the encouragement of art and the prevention of cruelty to children or animals), otherwise allowable as a deduction under section 170, 545 (b) (2), 642 (c), 2055, 2106 (a) (2), or 2522, shall be allowed as a deduction if made in trust and, in the taxable year of the trust in which the gift or bequest is made, the deduction allowed the trust under section 642 (c) is limited by paragraph (1). With respect to any taxable year of a trust in which such deduction has been so limited by reason of entering into a prohibited transaction with the purpose of diverting such corpus or income from the purposes described in section 642 (c), and such transaction involved a substantial part of such income or corpus, and which taxable year is the same, or before the, taxable year of the trust in which such prohibited transaction occurred, such deduction shall be disallowed the donor only if such donor or (if such donor is an individual) any member of his family (as defined in section 267 (c) (4)) was a party to such prohibited transaction.

(6) **DEFINITION.**—For purposes of this subsection, the term “gift or bequest” means any gift, contribution, bequest, devise, or legacy, or any transfer without adequate consideration.

(c) **ACCUMULATED INCOME.**—If the amounts permanently set aside, or to be used exclusively for the charitable and other purposes described in section 642 (c) during the taxable year or any prior taxable year and not actually paid out by the end of the taxable year—

(1) are unreasonable in amount or duration in order to carry out such purposes of the trust;

(2) are used to a substantial degree for purposes other than those prescribed in section 642 (c); or

(3) are invested in such a manner as to jeopardize the interests of the religious, charitable, scientific, etc., beneficiaries, the amount otherwise allowable under section 642 (c) as a deduction shall be limited to the amount actually paid out during the taxable year and shall not exceed 20 percent of the taxable income of the trust (computed without the benefit of section 642 (c) but with the benefit of section 170 (b) (1) (A)). Paragraph (1) shall not apply to income attributable to property of a decedent dying before January 1, 1951, which is transferred under his will to a trust created by such will. In the case of a trust created by the will of a decedent dying on or after January 1, 1951, if income is required to be accumulated pursuant to

the mandatory terms of the will creating the trust, paragraph (1) shall apply only to income accumulated during a taxable year of the trust beginning more than 21 years after the date of death of the last life in being designated in the trust instrument.

(d) CROSS REFERENCE.—

For disallowance of certain charitable, etc., deductions otherwise allowable under section 642 (c), see section 503 (e).

## SUBTITLE B. ESTATE AND GIFT TAXES

### CHAPTER 11. ESTATE TAX

#### *Subchapter A. Estates of Citizens or Residents*

#### SEC. 2055. TRANSFERS FOR PUBLIC, CHARITABLE, AND RELIGIOUS USES

(a) IN GENERAL.—For purposes of the tax imposed by section 2001, the value of the taxable estate shall be determined by deducting from the value of the gross estate the amount of all bequests, legacies, devises, or transfers (including the interest which falls into any such bequest, legacy, devise, or transfer as a result of an irrevocable disclaimer of a bequest, legacy, devise, transfer, or power, if the disclaimer is made before the date prescribed for the filing of the estate tax return)—

\* \* \* \* \*

(2) to or for the use of any corporation organized and operated exclusively for religious, charitable, scientific, literary, or educational purposes, including the encouragement of art and the prevention of cruelty to children or animals, no part of the net earnings of which inures to the benefit of any private stockholder or individual, and no substantial part of the activities of which is carrying on propaganda, or otherwise attempting, to influence legislation;

\* \* \* \* \*

For purposes of this subsection, the complete termination before the date prescribed for the filing of the estate tax return of a power to consume, invade, or appropriate property for the benefit of an individual before such power has been exercised by reason of the death of such individual or for any other reason shall be considered and deemed to be an irrevocable disclaimer with the same full force and effect as though he had filed such irrevocable disclaimer.

\* \* \* \* \*

(c) DEATH TAXES PAYABLE OUT OF BEQUESTS.—If the tax imposed by section 2001, or any estate, succession, legacy, or inheritance taxes,

are, either by the terms of the will, by the law of the jurisdiction under which the estate is administered, or by the law of the jurisdiction imposing the particular tax, payable in whole or in part out of the bequests, legacies, or devises otherwise deductible under this section, then the amount deductible under this section shall be the amount of such bequests, legacies, or devises reduced by the amount of such taxes.

(d) **LIMITATION ON DEDUCTION.**—The amount of the deduction under this section for any transfer shall not exceed the value of the transferred property required to be included in the gross estate.

(e) **DISALLOWANCE OF DEDUCTIONS IN CERTAIN CASES.**—

For disallowance of certain charitable, etc., deductions otherwise allowable under this section, see sections 504 and 681.

\* \* \* \* \*

### *Subchapter B. Estates of Nonresidents Not Citizens*

#### **SEC. 2106. TAXABLE ESTATE**

(a) **DEFINITION OF TAXABLE ESTATE.**—For purposes of the tax imposed by section 2101, the value of the taxable estate of every decedent nonresident not a citizen of the United States shall be determined by deducting from the value of that part of his gross estate which at the time of his death is situated in the United States—

\* \* \* \* \*

(2) **TRANSFERS FOR PUBLIC, CHARITABLE, AND RELIGIOUS USES.**—

(A) **IN GENERAL.**—The amount of all bequests, legacies, devises, or transfers (including the interest which falls into any such bequest, legacy, devise, or transfer as a result of an irrevocable disclaimer of a bequest, legacy, devise, transfer, or power, if the disclaimer is made before the date prescribed for the filing of the estate tax return)—

\* \* \* \* \*

(ii) to or for the use of any domestic corporation organized and operated exclusively for religious, charitable, scientific, literary, or educational purposes, including the encouragement of art and the prevention of cruelty to children or animals, no part of the net earnings of which inures to the benefit of any private stockholder or individual, and no substantial part of the activities of which is carrying on propaganda, or otherwise attempting, to influence legislation; or

\* \* \* \* \*



(C) DEATH TAXES PAYABLE OUT OF BEQUESTS.—If the tax imposed by section 2101, or any estate, succession, legacy, or inheritance taxes, are, either by the terms of the will, by the law of the jurisdiction under which the estate is administered, or by the law of the jurisdiction imposing the particular tax, payable in whole or in part out of the bequests, legacies, or devises otherwise deductible under this paragraph, then the amount deductible under this paragraph shall be the amount of such bequests, legacies, or devises reduced by the amount of such taxes.

(D) LIMITATION ON DEDUCTION.—The amount of the deduction under this paragraph for any transfer shall not exceed the value of the transferred property required to be included in the gross estate.

(E) DISALLOWANCE OF DEDUCTIONS IN CERTAIN CASES.—

For disallowance of certain charitable, etc., deductions otherwise allowable under this paragraph, see sections 504 and 681.

\* \* \* \* \*

## CHAPTER 12. GIFT TAX

### *Subchapter C. Deductions*

#### SEC. 2522. CHARITABLE AND SIMILAR GIFTS

(a) CITIZENS OR RESIDENTS.—In computing taxable gifts for the calendar year, there shall be allowed as a deduction in the case of a citizen or resident the amount of all gifts made during such year to or for the use of—

\* \* \* \* \*

(2) a corporation, or trust, or community chest, fund, or foundation, organized and operated exclusively for religious, charitable, scientific, literary, or educational purposes, including the encouragement of art and the prevention of cruelty to children or animals, no part of the net earnings of which inures to the benefit of any private shareholder or individual, and no substantial part of the activities of which is carrying on propaganda, or otherwise attempting, to influence legislation;

\* \* \* \* \*

(b) NONRESIDENTS.—In the case of a nonresident not a citizen of the United States, there shall be allowed as a deduction the amount of all gifts made during such year to or for the use of—

\* \* \* \* \*

(2) a domestic corporation organized and operated exclusively for religious, charitable, scientific, literary, or educational purposes, in-

cluding the encouragement of art and the prevention of cruelty to children or animals, no part of the net earnings of which inures to the benefit of any private shareholder or individual, and no substantial part of the activities of which is carrying on propaganda, or otherwise attempting, to influence legislation;

(3) a trust, or community chest, fund, or foundation, organized and operated exclusively for religious, charitable, scientific, literary, or educational purposes, including the encouragement of art and the prevention of cruelty to children or animals, no substantial part of the activities of which is carrying on propaganda, or otherwise attempting, to influence legislation; but only if such gifts are to be used within the United States exclusively for such purposes;

\* \* \* \* \*

(c) **DISALLOWANCE OF DEDUCTIONS IN CERTAIN CASES.—**

For disallowance of certain charitable, etc., deductions otherwise allowable under this section, see sections 504 and 681.

\* \* \* \* \*

## SUBTITLE C. EMPLOYMENT TAXES

### CHAPTER 21. FEDERAL INSURANCE CONTRIBUTIONS ACT

#### *Subchapter C. General Provisions*

#### SEC. 3121. DEFINITIONS

\* \* \* \* \*

#### (k) **EXEMPTION OF RELIGIOUS, CHARITABLE, AND CERTAIN OTHER ORGANIZATIONS.—**

(1) **WAIVER OF EXEMPTION BY ORGANIZATION.—**An organization described in section 501 (c) (3) which is exempt from income tax under section 501 (a) may file a certificate (in such form and manner, and with such official, as may be prescribed by regulations made under this chapter) certifying that it desires to have the insurance system established by title II of the Social Security Act extended to service performed by its employees and that at least two-thirds of its employees concur in the filing of the certificate. Such certificate may be filed only if it is accompanied by a list containing the signature, address, and social security account number (if any) of each employee who concurs in the filing of the certificate. Such list may be amended, at any time prior to the expiration of the first month following the first calendar quarter for which the certificate is in effect,

by filing with such official a supplemental list or lists containing the signature, address, and social security account number (if any) of each additional employee who concurs in the filing of the certificate. The list and any supplemental list shall be filed in such form and manner as may be prescribed by regulations made under this chapter. The certificate shall be in effect (for purposes of subsection (b) (9) (B) and for purposes of section 210 (a) (9) (B) of the Social Security Act) for the period beginning with the first day following the close of the calendar quarter in which such certificate is filed. The period for which a certificate filed pursuant to this subsection or the corresponding subsection of prior law is effective may be terminated by the organization, effective at the end of a calendar quarter, upon giving 2 years' advance notice in writing, but only if, at the time of the receipt of such notice, the certificate has been in effect for a period of not less than 8 years. The notice of termination may be revoked by the organization by giving, prior to the close of the calendar quarter specified in the notice of termination, a written notice of such revocation. Notice of termination or revocation thereof shall be filed in such form and manner, and with such official, as may be prescribed by regulations made under this chapter.

(2) **TERMINATION OF WAIVER PERIOD BY SECRETARY OR HIS DELEGATE.**—If the Secretary or his delegate finds that any organization which filed a certificate pursuant to this subsection or the corresponding subsection of prior law has failed to comply substantially with the requirements applicable with respect to the taxes imposed by this chapter or the corresponding provisions of prior law or is no longer able to comply with the requirements applicable with respect to the taxes imposed by this chapter, the Secretary or his delegate shall give such organization not less than 60 days' advance notice in writing that the period covered by such certificate will terminate at the end of the calendar quarter specified in such notice. Such notice of termination may be revoked by the Secretary or his delegate by giving, prior to the close of the calendar quarter specified in the notice of termination, written notice of such revocation to the organization. No notice of termination or of revocation thereof shall be given under this paragraph to an organization without the prior concurrence of the Secretary of Health, Education, and Welfare.

(3) **NO RENEWAL OF WAIVER.**—In the event the period covered by a certificate filed pursuant to this subsection or the corresponding subsection of prior law is terminated by the organization, no certificate may again be filed by such organization pursuant to this subsection.

## SUBTITLE D. MISCELLANEOUS EXCISE TAXES

## CHAPTER 33. FACILITIES AND SERVICES

*Subchapter A. Admissions and Dues*

## SEC. 4233. EXEMPTIONS

(a) ALLOWANCE.—No tax shall be imposed under section 4231 in respect of:

(1) CERTAIN RELIGIOUS, EDUCATIONAL, OR CHARITABLE ENTERTAINMENTS, ETC.—

(A) IN GENERAL.—Except as provided in subparagraph (C), any admissions all the proceeds of which inure exclusively to the benefit of—

\* \* \* \* \*

(iii) a corporation or any community chest, fund, or foundation organized and operated exclusively for charitable purposes, described in section 501 (c) (3) which is exempt from tax under section 501 (a), if such corporation or organization is supported, in whole or in part, by funds contributed by the United States or any State or political subdivision thereof, or is primarily supported by contributions from the general public;

\* \* \* \* \*

if no part of the net earnings thereof inures to the benefit of any private stockholder or individual.

\* \* \* \* \*

(C) NONEXEMPT ADMISSIONS.—The exemption provided under subparagraph (A) or (B) shall not apply in the case of admissions to—

(i) any athletic game or exhibition unless the proceeds inure exclusively to the benefit of an elementary or secondary school or unless in the case of an athletic game between teams composed of students from elementary or secondary schools, or colleges, the entire gross proceeds from such game inure to the benefit of a hospital for crippled children,

(ii) wrestling matches, prize fights, or boxing, sparring, or other pugilistic matches or exhibitions,

(iii) carnivals, rodeos (except as provided in paragraph (g) ), or circuses in which any professional performer or operator participates for compensation, or

(iv) any motion picture exhibition.

Clauses (i) and (ii) shall not apply in the case of any athletic event between educational institutions held during the regular athletic season for such event, if the proceeds therefrom inure exclusively to the benefit of such institutions.

\* \* \* \* \*

## SUBTITLE F. PROCEDURE AND ADMINISTRATION

## CHAPTER 61. INFORMATION AND RETURNS

*Subchapter A. Returns and Records*

## SEC. 6033. RETURNS BY EXEMPT ORGANIZATIONS

(a) GENERAL.—Every organization, except as hereinafter provided, exempt from taxation under section 501 (a) shall file an annual return, stating specifically the items of gross income, receipts, and disbursements, and such other information for the purpose of carrying out the provisions of subtitle A as the Secretary or his delegate may by forms or regulations prescribe, and shall keep such records, render under oath such statements, make such other returns, and comply with such rules and regulations, as the Secretary or his delegate may from time to time prescribe, except that, in the discretion of the Secretary or his delegate, an organization described in section 401 (a) may be relieved from stating in its return any information which is reported in returns filed by the employer which established such organization. No such annual return need be filed under this subsection by any organization exempt from taxation under the provisions of section 501 (a)—

(1) which is a religious organization described in section 501 (c) (3); or

(2) which is an educational organization described in section 501 (c) (3), if such organization normally maintains a regular faculty and curriculum and normally has a regularly organized body of pupils or students in attendance at the place where its educational activities are regularly carried on; or

(3) which is a charitable organization, or an organization for the prevention of cruelty to children or animals, described in section 501 (c) (3), if such organization is supported, in whole or in part, by funds contributed by the United States or any State or political subdivision thereof, or is primarily supported by contributions of the general public; or

(4) which is an organization described in section 501 (c) (3), if such organization is operated, supervised, or controlled by or in connection with a religious organization described in paragraph (1); or

(5) which is an organization described in section 501 (c) (8); or

(6) which is an organization described in section 501 (c) (1), if such organization is a corporation wholly owned by the United States or any agency or instrumentality thereof, or a wholly-owned subsidiary of such a corporation.



(b) CERTAIN ORGANIZATIONS DESCRIBED IN SECTION 501 (c) (3).—Every organization described in section 501 (c) (3) which is subject to the requirements of subsection (a) shall furnish annually information, at such time and in such manner as the Secretary or his delegate may by forms or regulations prescribe, setting forth—

- (1) its gross income for the year,
- (2) its expenses attributable to such income and incurred within the year,
- (3) its disbursements out of income within the year for the purposes for which it is exempt,
- (4) its accumulation of income within the year,
- (5) its aggregate accumulations of income at the beginning of the year,
- (6) its disbursements out of principal in the current and prior years for the purposes for which it is exempt, and
- (7) a balance sheet showing its assets, liabilities, and net worth as of the beginning of such year.

\* \* \* \* \*

SEC. 6034. RETURNS BY TRUSTS CLAIMING CHARITABLE DEDUCTIONS UNDER SECTION 642 (c)

(a) GENERAL RULE.—Every trust claiming a charitable, etc., deduction under section 642 (c) for the taxable year shall furnish such information with respect to such taxable year as the Secretary or his delegate may by forms or regulations prescribe, setting forth—

- (1) the amount of the charitable, etc., deduction taken under section 642 (c) 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 642 (c) 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.

(b) **EXCEPTION.**—This section 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.

*Subchapter B. Miscellaneous Provisions*

SEC. 6104. PUBLICITY OF INFORMATION REQUIRED FROM CERTAIN EXEMPT ORGANIZATIONS AND CERTAIN TRUSTS

The information required to be furnished by sections 6033 (b) and 6034, 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 or his delegate may prescribe.

CHAPTER 66. LIMITATIONS

*Subchapter A. Limitations on Assessment and Collection*

SEC. 6501. LIMITATIONS ON ASSESSMENT AND COLLECTION

\* \* \* \* \*

(g) **CERTAIN INCOME TAX RETURNS OF CORPORATIONS.**—

\* \* \* \* \*

(2) **EXEMPT ORGANIZATIONS.**—If a taxpayer determines in good faith that it is an exempt organization and files a return as such under section 6033, and if such taxpayer is thereafter held to be a taxable corporation for the taxable year for which the return is filed, such return shall be deemed the return of the corporation for purposes of this section.

\* \* \* \* \*

CHAPTER 75. CRIMES, OTHER OFFENSES, AND FORFEITURES

*Subchapter A. Crimes*

SEC. 7203. WILLFUL FAILURE TO FILE RETURN, SUPPLY INFORMATION, OR PAY TAX

Any person required under this title to pay any estimated tax or tax, or required by this title or by regulations made under authority thereof to make a return (other than a return required under authority of section 6015 or section 6016), keep any records, or supply any information, who willfully fails to pay such estimated tax or tax, make such return, keep such records, or supply such information, at the time or times required by law or regulations, shall, in addition to other penalties provided by law, be guilty of a misdemeanor and, upon conviction thereof, shall be fined not more than \$10,000, or imprisoned not more than 1 year, or both, together with the costs of prosecution.

## *A P P E N D I X C*

### SAMPLE FOUNDATION CHARTER<sup>1</sup>

\* \* \* \* \*

#### CERTIFICATE OF INCORPORATION OF THE X FOUNDATION

(Pursuant to Membership Corporation Law)

We, the undersigned, desiring to form a membership corporation pursuant to the Membership Corporation Law of the State of New York, do hereby make, sign and acknowledge this certificate as follows:

FIRST: The name of the corporation is THE X FOUNDATION.

SECOND: The purposes for which it is formed are as follows:

The corporation is organized and shall be operated exclusively for religious, charitable, scientific, testing for public safety, literary, or educational purposes. In furtherance of such purposes it may promote, establish, conduct, and maintain activities on its own behalf or it may contribute to or otherwise assist other corporations, organizations, and institutions carrying on such activities or any thereof; and for such purposes it may solicit and receive funds and other property, real, personal, and mixed, and interests therein, by gift, transfer, devise, or bequest, and invest, re-invest, hold, manage, administer, expend, and apply such funds and property, subject to such conditions and limitations, if any, as may be expressed in any instrument evidencing such gift, transfer, devise, or bequest.

No part of the income or principal of the corporation shall inure to the benefit of or be distributed to any member, director, or officer of the corporation or any other private individual, but reimbursement for expenditures or the payment of reasonable compensation for services rendered shall not be deemed to be a distribution of income or principal. The corporation shall not carry on propaganda, or otherwise attempt, to influence legislation, nor participate in, nor intervene in, any political campaign on behalf of any candidate for public office.

<sup>1</sup> Suitable as a channel for giving either by individuals or a corporation. The New York locus is simply by way of example.

THIRD: The territory in which its operations are principally to be conducted is the United States of America.

FOURTH: Its principal office is to be located at .....  
 ..... Street, in the Borough of Manhattan, City,  
 County, and State of New York.

FIFTH: The number of its directors shall be no fewer than three (3)  
 nor more than nine (9), as shall be provided from time to time in its  
 by-laws.

SIXTH: The names and places of residence of its directors until the  
 first annual meeting are as follows:

<i>Name</i>	<i>Address</i>
.....	.....
.....	.....
.....	.....
.....	.....

SEVENTH: All of the subscribers of this Certificate are of full age,  
 at least two-thirds of them are citizens of the United States of  
 America, and at least one of them is a resident of the State of New  
 York. Of the persons named as directors, at least one is a citizen of  
 the United States of America and a resident of the State of New York.

IN WITNESS WHEREOF, we have hereunto set our hands and  
 seals this ..... day of ....., 195...

## A P P E N D I X D

# CONSTITUTION OF RUSSELL SAGE FOUNDATION

### ARTICLE I

#### *Purpose*

The purpose of this Corporation shall be to receive and manage a fund or funds and to apply the income thereof, and at the discretion of its Trustees any portion of the principal thereof the expenditure of which is not restricted by the terms of gift, for the improvement of social and living conditions in the United States of America. It shall be within the purpose of the Corporation to use any means to that end which from time to time shall seem expedient to its Members or Trustees, including research, publication, education, the establishment and maintenance of charitable or benevolent activities, agencies and institutions, and the aid of any such activities, agencies, or institutions already established.

### ARTICLE II

#### *Office*

The principal office of the Corporation shall be located in the City, County, and State of New York.

### ARTICLE III

#### *Members*

*Section 1.* The members of the Corporation shall be the present members of the Board of Trustees of the Corporation and those persons who shall hereafter be elected members of such board. A Trustee who ceases to be a member of the Board of Trustees shall thereupon cease to be a member of the Corporation.

*Section 2.* An annual meeting of the members of the Corporation shall be held immediately preceding and at the place of each annual meeting of the Board of Trustees for the purpose of electing Trustees and transacting such other business as may properly come before the meeting.



*Section 3.* Special meetings of the members of the Corporation may be called at any time by either the Board of Trustees or the Chairman of the Board, and shall be called by the Chairman upon written request of any three members of the Corporation. Such request shall specify the date and purpose of the meeting.

*Section 4.* Written notice of the time, place, and purpose of the annual meeting and of all other meetings of the members of the Corporation shall be mailed by the Secretary to each member, addressed to him at his address as it appears on the records of the Corporation, not less than ten days and not more than forty days before the meeting.

*Section 5.* At all meetings of the members of the Corporation seven members present in person or by proxy shall constitute a quorum for the transaction of business, but a lesser number may adjourn the meeting to a time and place specified.

*Section 6.* At all meetings of the members of the Corporation each member may vote in person or by proxy.

#### ARTICLE IV

##### *Board of Trustees*

*Section 1.* The management of the Corporation shall be vested in a board of twelve trustees or directors, which shall be known, and hereinafter referred to, as the Board of Trustees.

*Section 2.* The members of the Board of Trustees shall be the present members of the Board and those persons hereafter elected to membership in the Board.

*Section 3.* There shall be three classes of members within the Board of Trustees, each class consisting of four members and having a term of office of three years or until their successors are elected. The terms of the three classes shall overlap in such a manner that the term of one class shall be due to expire at each annual meeting of the Corporation. At each annual meeting of the Corporation, members of the Board of Trustees shall be elected to replace the members of the class whose term of office expires at that time, and to fill any vacancy in another class which may then exist.

*Section 4.* Vacancies in the Board of Trustees may be filled for unexpired terms by the Board of Trustees at any meeting of the Board.

*Section 5.* Any Trustee may resign at any time by written notice to the Secretary of the Corporation.

*Section 6.* The Board of Trustees shall hold its meetings at such place or places as the Board may from time to time determine.

*Section 7.* An annual meeting of the Board of Trustees shall be held on the second Thursday of November each year, unless a different time is fixed by the Board of Trustees. Other regular meetings shall be held on the second Thursday of February and May each year, unless a different time is fixed by the Board of Trustees or the Executive Committee. Special meetings may be called by the Chairman of the Board, or in his absence or inability to act by the Vice Chairman of the Board, and shall be called by such officer on the written request of three members of the Board.

*Section 8.* Written notice of the time and place of all meetings of the Board of Trustees shall be mailed by the Secretary to each Trustee at his address as it appears on the records of the Corporation, not less than one week before the meeting. Notices of special meetings shall state the purpose of the meeting.

*Section 9.* At the meetings of the Board of Trustees, four members shall constitute a quorum for the transaction of business, but a lesser number may adjourn the meeting to a time and place specified.

## ARTICLE V

### *Officers*

*Section 1.* The officers of the Corporation shall include a Chairman of the Board, a Vice Chairman of the Board, a President, a Treasurer, and a Secretary, who shall be elected by the Board of Trustees at its annual meeting each year. The Board of Trustees may elect or provide for the appointment of such other officers and agents as it may deem necessary and may prescribe their terms of office and duties.

*Section 2.* The Chairman of the Board, the Vice Chairman of the Board, and the President must be members of the Board of Trustees. Other officers may be such members. More than one office may be held by one person, except that the Chairman of the Board, the Vice Chairman of the Board, and the President may not hold the office of either the Treasurer or Secretary.

*Section 3.* The terms of the officers of the Corporation shall be one year or until their successors are elected, but any officer may be removed at any meeting of the Board of Trustees by an affirmative vote or written consent of a majority of all the members of the Board. The Board may at any meeting fill for the unexpired term any vacancy which occurs in any office of the Corporation.

*Section 4.* The Chairman of the Board shall preside at all meetings of the Corporation, the Board of Trustees, and the Executive Committee at which he is present, and shall exercise an advisory function in relation to the policies and activities of the Corporation. He shall be ex-officio

a member of all standing committees and shall perform such other duties as may be required by this Constitution or by the Board of Trustees.

*Section 5.* In the event of a vacancy in the office of the Chairman of the Board, or during the absence or inability to act of the Chairman, the duties and powers of the Chairman shall devolve upon the Vice Chairman of the Board. The Vice Chairman of the Board shall be ex-officio a member of the Executive Committee.

*Section 6.* The President shall be the principal executive officer of the Corporation and shall be charged with the direction of the program of the Corporation and the management of the staff employed in carrying out the purpose of the Corporation, subject to the control of the Board of Trustees. The President shall be ex-officio a member of the Executive Committee.

*Section 7.* The Treasurer shall be charged with the custody of all papers and documents relating to the property of the Corporation, except such as are mentioned in Article VIII, and shall receive all the funds of the Corporation. He shall deposit all corporate funds in the corporate name in such bank or banks, trust company or trust companies, as the Board of Trustees shall designate or approve. Such funds shall be disbursed by such procedure as the Board of Trustees may by resolution from time to time prescribe. The Treasurer shall render to the Board of Trustees at least as of the end of each fiscal year an accurate account of his transactions as treasurer and of the financial condition of the Corporation.

*Section 8.* The Secretary shall give notice of, and shall keep a careful record of the proceedings of, all meetings of the Corporation, of the Board of Trustees, of the Executive Committee, and of the Finance Committee; and shall in general perform all the duties incident to the office of secretary, subject to the control of the Board of Trustees. The Secretary shall have the custody of the Corporate Seal, and shall affix the same upon all contracts and instruments requiring the seal.

## ARTICLE VI

### *Executive Committee*

*Section 1.* At each annual meeting of the Board of Trustees, the Board shall elect from its membership three or more members to constitute, with the Chairman of the Board, Vice Chairman of the Board, and President, an Executive Committee. The term of the elected members of the Executive Committee shall be one year or until their successors are elected. The Executive Committee may exercise all the powers of the Board of Trustees during the intervals between the meetings of the Board.

*Section 2.* The Executive Committee shall hold meetings when called by the Chairman of the Board or by two members of the Committee. Notices of its meetings shall be mailed to the members of the Committee by the Secretary at least two days in advance of the meeting.

*Section 3.* At any meeting of the Executive Committee three members shall constitute a quorum for the transaction of business.

*Section 4.* The Executive Committee shall regularly report its proceedings to the Board of Trustees at subsequent meetings of the Board.

## ARTICLE VII

### *Other Committees*

*Section 1.* At each annual meeting of the Board of Trustees, the Board shall elect from its membership a Finance Committee of three or more members for a term of one year or until their successors are appointed. The Board shall designate the chairman of the Committee. It shall be the duty of the Finance Committee to determine the investment and reinvestment of the funds owned by or held by the Corporation, by such procedure as the Board of Trustees may by resolution from time to time prescribe. The Committee shall regularly report its proceedings to the Board of Trustees at subsequent meetings of the Board, including at each meeting the changes in the investment of funds effected since the last preceding meeting of the Board.

*Section 2.* At each annual meeting of the Board of Trustees, the Board shall elect from its membership an Auditing Committee of two members. It shall be the duty of the Auditing Committee to cause to be made, by a competent and independent firm of certified public accountants, to be selected by such Committee, following the close of each fiscal year, and oftener if ordered by the Board of Trustees, an audit of the balance sheet and the principal, income, reserve, and trust accounts of the Corporation.

*Section 3.* The Board of Trustees may elect or provide for the appointment of, and may prescribe the terms, duties, and procedures of, such other committees as it may deem advisable to advise or assist in the management, direction, and supervision of the activities of the Corporation, and may fill any vacancies which may occur in any committees of the Corporation.

## ARTICLE VIII

### *Safekeeping of Securities*

*Section 1.* All bonds, stocks and other invested securities and evidences of value owned or held by the Corporation, except as provided in the following section, shall be deposited for safekeeping with a bank or trust

company approved by the Board of Trustees, to be held for the account of the Corporation and subject to the order of the Finance Committee through such procedure as the Board of Trustees may by resolution from time to time prescribe.

*Section 2.* All bonds and stocks of real estate development corporations and mortgages owned or held by the Corporation may be deposited for safekeeping with the counsel or agent who with the approval of the Board of Trustees may be employed to service such property.

*Section 3.* All transfers and assignments of any securities registered or standing in the name of the Corporation shall be executed under its seal by the Chairman of the Board or President together with the Treasurer or Secretary.

## ARTICLE IX

### *Purchase, Sale, Mortgage or Lease of Real Estate*

*Section 1.* No purchase, sale, mortgage, or lease of the real property of the Corporation shall be made unless authorized by the affirmative vote of a majority of the whole number of the Board of Trustees.

*Section 2.* No sale or mortgage, other than a purchase money mortgage, of real property within the State of New York, or lease thereof for more than five years, shall be made without leave of the Supreme Court in a Judicial District in which some of the property is located.

*Section 3.* The provisions of the foregoing Sections 1 and 2 of this Article IX shall not apply to real property acquired on a sale in any action or proceeding for the foreclosure of a mortgage owned by this Corporation or to real property acquired by this Corporation by deed in lieu of foreclosure of a mortgage owned, either in whole or in part, whether in certificate form or otherwise, by this Corporation.

## ARTICLE X

### *Fiscal Year*

The fiscal year of the Corporation shall begin on October 1.

## ARTICLE XI

### *Seal*

The seal of the Corporation shall contain the following inscription: RUSSELL SAGE FOUNDATION FOR THE IMPROVEMENT OF SOCIAL AND LIVING CONDITIONS 1907. INASMUCH AS YE HAVE DONE IT UNTO ONE OF THE LEAST OF THESE MY BRETHREN YE HAVE DONE IT UNTO ME.



## ARTICLE XII

*Waiver of Notices*

The giving of any notice required to be given by this Constitution, or by the Laws of the State of New York, may be waived by a waiver in writing signed by all the persons entitled to such notice, whether before or after the time or event referred to in said notice, which waiver shall be deemed equivalent to such notice.

## ARTICLE XIII

*Amendment*

This Constitution may be amended at any meeting of the Board of Trustees by an affirmative vote or the written assent of eight Trustees, provided the proposed amendment shall have been presented at the preceding regular meeting of the Board and a copy of the amendment as proposed shall have been mailed to each member of the Board at least three days before the meeting at which action thereon is to be taken.

## *A P P E N D I X E*

### RESOLUTION AND DECLARATION OF TRUST CREATING THE MOUNT VERNON (OHIO) COMMUNITY TRUST

WHEREAS, there is a need in this community for the creation of a general fund permitting of flexibility in the power of distribution, to assist public educational, charitable, or benevolent enterprises;

NOW, THEREFORE, to accomplish this purpose, the Board of Directors of The First-Knox National Bank or The Board of Directors of The Knox County Savings Bank, both of Mount Vernon, resolves:

#### I

The First-Knox National Bank or The Knox County Savings Bank agrees to accept gifts, devises, or bequests, in trust for public educational, charitable or benevolent uses and purposes, to be administered as a single trust, known as "The Mount Vernon Community Trust."

Distribution of funds shall be made under the direction of a Committee selected for its interest in and knowledge of the public educational, charitable, or benevolent needs of the people.

#### II

##### A. THE TRUSTEE:

The Trustee shall exercise all rights of absolute ownership in the administration of all property constituting the trust, in its own discretion, without any court orders, irrespective of any statutes now or hereafter in force limiting the investments of trust companies or trustees; and it shall not be liable for any loss except for its own wilful default.

The Trustee may, in its discretion, accept any gifts, devise or bequest as part of "The Mount Vernon Community Trust" if consistent with the purposes of this Trust.

The Trustee shall quarterly certify to the Distribution Committee the amount available for distribution under the trust, and shall make the distribution upon written direction of the Committee. In so doing, the Trustee, and the Directors thereof, shall not be responsible for any act or omission of the Distribution Committee.

**B. THE DISTRIBUTION COMMITTEE:**

The Committee to direct the distribution shall consist of five (5) residents of Knox County, Ohio. Not more than two members shall belong to the same religious sect or denomination. No member shall hold or seek any public office, unless it be of entirely non-political and non-partisan nature.

All members shall hold office for five (5) years from the first day of January following their appointments; excepting, those first appointed shall serve for the following terms, counting from the first day of January after their appointments, although their terms shall commence as soon as appointed.

The Committee shall be appointed as follows:

One member by The Board of Directors of The First-Knox National Bank of Mount Vernon—Original Term, One Year.

One member by The Board of Directors of The Knox County Savings Bank, Mount Vernon, Ohio—Original Term, Two Years.

One member by The Board of Directors of The Mount Vernon Chamber of Commerce—Original Term, Three Years.

One member by The City Council of Mount Vernon, Ohio—Original Term, Four Years.

One member by the joint action of the Judge of the Court of Common Pleas of Knox County, Ohio, and the Judge of the Probate Court of Knox County, Ohio—Original Term, Five Years.

All members shall serve until their successors are selected and qualified.

The Committee shall organize as soon as possible, elect a Chairman and other officers, and adopt by-laws for the conduct of its affairs. It is authorized to appoint a Secretary, who need not be a member of the Committee, to keep its records and to perform other duties as directed. The members of the Committee shall serve without compensation, but expenses of the Committee shall be paid out of funds available for distribution by the Trustee. A majority of the Committee shall constitute a quorum, and a majority vote at a meeting at which a quorum is present shall constitute an action of the Committee, except as otherwise provided and except that the affirmative vote of three members of the Committee shall be required to direct the payment of money.

Should any power of appointment not be exercised for sixty days after request, the appointment shall be made by a Board composed of the members of The Boards of Directors of The First-Knox National Bank of Mount Vernon and The Knox County Savings Bank, a majority of whom shall constitute a quorum.

The Committee, in directing distribution of funds, shall respect any wishes expressed in creating the gift; provided that, if the Committee, by resolution adopted by the affirmative vote of four members and approved by the Trustee, shall determine that it is unwise or impractical to apply the gift, devise, or bequest to the purpose or in the manner indicated by the donor, or to expend income only, the Committee, with the approval of the Trustee, may thereafter direct the application of the gift, devise, or bequest to such other public educational, charitable, or benevolent purpose, or in such other manner, or direct such expenditure of principal, as, in the opinion of the Committee, will best comply with the purposes of this trust, and will be most nearly related to the purpose indicated by the donor.

In the absence of any specific direction of the donor, the Committee shall have absolute discretion to direct the distribution of all funds as may, in its opinion, best comply with the purposes of this trust.

The members of the Committee shall not be personally liable for any misapplication of funds in violation of this trust, provided direction for such distribution shall have been made in good faith and not in wilful violation of this Trust.

Should the Committee fail to direct the disbursement of funds, the Trustee shall have the power and duty to disburse the funds, to the same extent as the Committee, so that there shall be no failure to carry out this trust. The Trustee and its directors shall be fully protected in any such distribution so long as it is made in good faith and by reason of the failure of the Committee to act.

The proportion of the interest of each gift in the total fund, and the apportionment of income to or for a given beneficiary or purpose, shall be subject to the unlimited discretion of the Committee in accordance with rules to be established by the Committee, and subject to change by it.

Failure of any member of the Committee to attend a majority of the meetings of the Committee for one year, without excuse, or inability to perform his or her duties by reason of incompetency or other cause, or the removal of a member from Knox County, Ohio, shall, in the discretion of the Committee, operate as a resignation from membership on the Committee.

A record shall be kept of all donors to the trust, and proper recognition given to all donors, excepting those requesting anonymity.

The Committee shall annually publish in a newspaper of general circulation in Knox County, Ohio, a report of its proceedings during the preceding year, stating the aggregate of the fund, the disbursements made pursuant to its direction, and the purposes for which the disbursements were made.

The accounts of the Trustee, and the expenses of the Distribution Committee shall be annually audited by an independent auditor appointed by the Committee.

Should the Trustee resign all or part of its trust, the Committee may designate a successor, which shall be a financial institution authorized to do a trust business in Ohio, and which shall have all of the rights, powers, duties and immunities of its predecessor.

#### C. MODIFICATION:

All donors to this Trust, and the Trustee, shall be deemed conclusively to have agreed that the Distribution Committee, by resolution adopted by the affirmative vote of four members and approved by the Trustee, may, at any time, modify or amend the administrative provisions of this Resolution in any manner consistent with the purposes of this Trust, or terminate The Mount Vernon Community Trust.

#### D. TERMINATION:

In the event of the termination of The Mount Vernon Community Trust, the Trustee shall administer all funds entrusted to it under this Trust in such manner as will, in its judgment, best comply with the purpose of this Trust.



## *A P P E N D I X F*

### Forms

FORM 1023.	Exemption Application. . . . .	434
FORM 990-A.	U. S. Return of Organization Exempt from Tax, Section 501 (c) (3) . . . . .	436
FORM 1041-A.	Information Return on Trust Accumulations by a Trust Claiming Contributions Deduction under Section 642 (c) . . . . .	440

FORM **1023**  
Rev. Apr. 1956

U. S. TREASURY DEPARTMENT—INTERNAL REVENUE SERVICE

**EXEMPTION APPLICATION**

(To be made only by a principal officer of the organization claiming exemption)

To be filed with  
the District  
Director for  
your District.

For use of organizations applying for exemption under section 501(a) and described in section 501(c) (3) of the Internal Revenue Code of 1954, which are organized and operated exclusively for one of the following purposes (check purpose(s)):

- |                                      |   |                                     |  |
|--------------------------------------|---|-------------------------------------|--|
| <input type="checkbox"/> Religious   | <input type="checkbox"/> Charitable   | <input type="checkbox"/> Scientific | <input type="checkbox"/> Testing for Public Safety |
| <input type="checkbox"/> Educational | <input type="checkbox"/> For the prevention of cruelty to children or animals | <input type="checkbox"/> Literary   |  |

If the space provided for the insertion of information or data under any of the questions below is inadequate for the purposes, additional sheets may be used which should be properly identified and securely attached hereto.

1. FULL NAME OF ORGANIZATION

2. DATE OF APPLICATION

3. COMPLETE ADDRESS (Number and street, post office box, etc.)

4a. IS THE ORGANIZATION INCORPORATED?

☐ Yes ☐ No

4b. IF INCORPORATED, UNDER LAWS OF WHAT STATE?

4c. DATE OF INCORPORATION

4d. IF NOT INCORPORATED, STATE THE MANNER OF ORGANIZATION

4e. DATE OF ORGANIZATION

5a. IS THE ORGANIZATION THE OUTGROWTH OR CONTINUATION OF ANY FORM OF PREDECESSOR?

☐ Yes ☐ No

5b. IF SO, STATE NAME OF PREDECESSOR

5c. PERIOD DURING WHICH IT WAS IN EXISTENCE

5d. SUBMIT COPIES OF ALL PAPERS BY WHICH THE TRANSFER OF ASSETS, IF ANY, WAS EFFECTED

6a. HAS ORGANIZATION FILED FEDERAL INCOME TAX RETURNS?

☐ Yes ☐ No

6b. IF SO, STATE RETURN FORM NUMBER

6c. YEAR OR YEARS FILED

7. STATE BRIEFLY THE SPECIFIC PURPOSES FOR WHICH THE ORGANIZATION WAS FORMED (Do not quote from, or make reference to, the articles of incorporation or bylaws for this purpose.)

8a. IS CAPITAL STOCK ISSUED AND OUTSTANDING?

☐ Yes ☐ No

8b. IF SO, STATE (A) CLASS OR CLASSES OF SUCH STOCK, (B) THE NUMBER AND PAR VALUE OF THE SHARES, (C) THE CONSIDERATION FOR WHICH ISSUED, AND (D) WHETHER OR NOT ANY DIVIDENDS OR INTEREST HAS BEEN OR MAY BE PAID ON ANY CLASS OF SUCH STOCK.

9a. HAS ANY DISTRIBUTION OF CORPORATE PROPERTY EVER BEEN MADE TO SHAREHOLDERS OR MEMBERS?

☐ Yes ☐ No

9b. IF SO, ATTACH HERETO A SEPARATE STATEMENT CONTAINING FULL DETAILS THEREOF, INCLUDING (1) AMOUNTS OR VALUE, (2) SOURCE OF FUNDS OR PROPERTY DISTRIBUTED, AND (3) BASIS OF AND AUTHORITY FOR DISTRIBUTION

10. STATE ALL SOURCES FROM WHICH THE ORGANIZATION'S INCOME IS DERIVED

11a. DOES ANY PART OF THE RECEIPTS REPRESENT PAYMENT FOR SERVICES OF ANY CHARACTER RENDERED BY THE ORGANIZATION?

☐ Yes ☐ No

11b. IF SO, EXPLAIN IN DETAIL

12. STATE ALL THE ACTIVITIES IN WHICH THE ORGANIZATION IS PRESENTLY ENGAGED

13. EXPLAIN IN DETAIL EACH FUND-RAISING ACTIVITY AND EACH BUSINESS ENTERPRISE ENGAGED IN, ACCOMPANIED BY COPIES OF ALL AGREEMENTS, IF ANY, WITH OTHER PARTIES FOR THE CONDUCT OF THAT BUSINESS

14. WHAT, IF ANY, SPECIFIC ACTIVITIES OF THIS ORGANIZATION HAVE BEEN DISCONTINUED? (Explain fully, giving dates of commencement and termination and the reason for discontinuance.)

<b>15a. IS THE ORGANIZATION NOW, OR HAS IT EVER BEEN, ENGAGED IN CARRYING ON PROPAGANDA, OR OTHERWISE EITHER ADVOCATING OR OPPOSING PENDING OR PROPOSED LEGISLATION?</b>  <input type="checkbox"/> Yes <input type="checkbox"/> No	<b>15b. IF SO, FURNISH A DETAILED EXPLANATION OF SUCH ACTIVITIES, AND FURNISH COPIES OF LITERATURE, IF ANY, DISTRIBUTED BY THIS ORGANIZATION</b>				
<b>16a. DOES THE ORGANIZATION PARTICIPATE IN OR INTERVENE IN (INCLUDING THE PUBLISHING OR DISTRIBUTING OF STATEMENTS) ANY POLITICAL CAMPAIGN ON BEHALF OF ANY CANDIDATE FOR PUBLIC OFFICE?</b>  <input type="checkbox"/> Yes <input type="checkbox"/> No	<b>16b. IF SO, FURNISH A DETAILED EXPLANATION AND COPIES OF LITERATURE DISTRIBUTED</b>				
<b>17. FOR WHAT PURPOSES, OTHER THAN IN PAYMENT FOR SERVICES RENDERED OR SUPPLIES FURNISHED, ARE THE ORGANIZATION'S FUNDS EXPENDED? IF CONTRIBUTIONS, GIFTS, ETC., WERE MADE TO OTHER ORGANIZATIONS, ATTACH LIST.</b>					
<b>18a. ARE ANY PAYMENTS MADE TO MEMBERS OR SHAREHOLDERS FOR SERVICES RENDERED THE ORGANIZATION?</b> <input type="checkbox"/> Yes <input type="checkbox"/> No					
<b>18b. IF SO, ATTACH DETAILED EXPLANATION SHOWING AMOUNT SO PAID AND THE CHARACTER OF THE SERVICES RENDERED</b>					
<b>19. DOES ANY PART OF THE NET INCOME OF THE ORGANIZATION INURE TO THE BENEFIT OF ANY PRIVATE SHAREHOLDER OR INDIVIDUAL?</b>  <input type="checkbox"/> Yes <input type="checkbox"/> No					
<b>20a. IF THE ORGANIZATION IS A HOSPITAL, STATE WHETHER IT ACCEPTS PATIENTS IN NEED OF HOSPITAL CARE WHO CANNOT PAY FOR SUCH SERVICES</b>  <input type="checkbox"/> Yes <input type="checkbox"/> No	<b>20b. FOR THE LAST COMPLETE YEAR OF OPERATION, STATE NUMBER OF PATIENT DAYS OF TREATMENT OF</b>	<b>(1) FULL PAY PATIENTS</b>	<b>(2) PART PAY PATIENTS</b>	<b>(3) CHARITY PATIENTS (admitted as such)</b>	
<b>21. IN THE EVENT OF THE DISSOLUTION OF THE ORGANIZATION, WHAT DISPOSITION WOULD BE MADE OF ITS PROPERTY?</b>					
<b>22. AFTER JULY 1, 1950, DID THE CREATOR OF YOUR ORGANIZATION, OR A CONTRIBUTOR TO YOUR ORGANIZATION, OR A BROTHER OR SISTER (WHOLE OR HALF BLOOD), SPOUSE, ANCESTOR, OR LINEAL DESCENDANT OF SUCH CREATOR OR CONTRIBUTOR, OR A CORPORATION OWNED (50 PERCENT OR MORE OF VOTING STOCK OR 50 PERCENT OR MORE OF VALUE OF ALL STOCK) DIRECTLY OR INDIRECTLY BY SUCH CREATOR OR CONTRIBUTOR—If answer to any of the following is "Yes," attach detailed statement.</b>					
	Yes	No		Yes	No
<b>A. Borrow any part of your income or corpus?</b>			<b>C. Have any part of your services made available to him?</b>		
<b>B. Receive any compensation for personal services from you?</b>			<b>D. Purchase any securities or other property from you?</b>		
			<b>E. Sell any securities or other property to you?</b>		
			<b>F. Have any part of your income or corpus diverted to him by any transaction?</b>		
<b>23. ATTACH TO THIS APPLICATION</b>					
<b>A. A classified statement of receipts and expenditures during the last complete year of operation.</b>					
<b>B. A complete statement of assets and liabilities as of the end of the last complete year of operation.</b>					
<b>C. If incorporated, a copy of your articles of incorporation, or if not incor-</b>					
<b>24. If exemption is claimed as an exclusively educational organization and a regular curriculum and faculty are not normally maintained and a regularly organized body of pupils or students is not normally in attendance at the place where the educational activities are regularly carried on, there should be attached specimen copies of any books, pamphlets, leaflets, or other printed matter issued or distributed during the latest complete year of operations.</b>					

#### SIGNATURE AND VERIFICATION

I, the undersigned, president, vice president, treasurer, assistant treasurer, chief accounting officer (or other duly authorized officer) of the organization for which this application is made, declare under the penalties of perjury that this application (including any accompanying statements) has been examined by me and is, to the best of my knowledge and belief, a true, correct, and complete application, made in good faith pursuant to the Internal Revenue Code and the regulations thereunder.

(Date)	(Signature of officer)	(Title)
--------	------------------------	---------

#### IMPORTANT

A mere claim or contention by an organization that it is exempt from income tax under section 501 (a) of the Internal Revenue Code of 1954 and the corresponding provisions of prior revenue acts will not relieve the organization from filing income tax returns and paying the tax. Unless the Commissioner has determined that an organization is exempt, it must prepare and file a complete income tax return for each taxable year of its existence. Accordingly, every organization that claims to be exempt should furnish the information and data specified herein, together with any other facts deemed material to the question, with the least possible delay, in order that the Commissioner can determine whether or not it is exempt. As soon as practicable after the information and data are received, the organization will be advised of the Commissioner's determination, and, the annual returns which will be required.

U. S. Treasury Department—Internal Revenue Service  
**U. S. RETURN OF ORGANIZATION EXEMPT FROM TAX**  
Section 501 (c) (3) of Internal Revenue Code of 1954

DO NOT WRITE IN  
SPACE BELOW

Serial No.

This return must be filed on or before the 15th day of the fifth month following the close of the annual accounting period. Return must be filed with the District Director of Internal Revenue for the district in which is located the principal place of business or principal office of the organization.

NOTICE.—The law requires that certain information required on this return be made available to the public. Pages 3 and 4 are designed for this purpose and must be submitted as part of your return.

FOR CALENDAR YEAR .....

Or other taxable  
year beginning ..... 19.....  
and ending ..... 19.....

Please type or print plainly

Date of exemption letter

Legal name of organization

Address (number and street)

(City or town, postal zone number, county, and State)

Line No.

**GROSS INCOME**

1. Gross sales or receipts from business activities ..... \$.....
2. Less: Cost of goods sold or of operations (Attach itemized statement).....
3. Gross profit from business activities ..... \$.....
4. Interest .....
5. Dividends .....
6. Rents and royalties.....
7. Gain (or loss) from sale of assets, excluding inventory items (See instruction 2).....
8. Other income (Attach itemized statement).....
9. Total gross income (lines 1 to 8, incl.)..... \$.....

**INCURRED EXPENSES ATTRIBUTABLE TO GROSS INCOME**

10. Compensation of officers, directors, trustees, etc. (Attach statement showing name, position, salary, and time devoted to position)..... \$.....
11. Salaries and wages (other than amounts shown on line 10). Number of employees.....
12. Interest .....
13. Taxes.....
14. Rent.....
15. Depreciation (Attach schedule).....
16. Miscellaneous expenses (Attach itemized statement).....
17. Total expenses (lines 10 to 16, incl.)..... \$.....

**DISBURSEMENTS MADE WITHIN THE YEAR OUT OF CURRENT OR ACCUMULATED INCOME FOR PURPOSES FOR WHICH EXEMPT, AND ACCUMULATION OF INCOME**

18. Administrative and operating expenses (not included above)..... \$.....
19. Contributions, gifts, grants, etc.: (Attach list showing each class of activity for which disbursements were made with separate total for each. Also show to whom paid. If made to individuals related by blood, marriage, or adoption to any person having an interest in the organization such as director, trustee, officer, donor, etc., state relationship.)..... \$.....
20. Accumulation of income within the year (line 9 less the sum of lines 17, 18, and 19)..... \$.....
21. Aggregate accumulation of income at beginning of the year (computed for prior years as on line 20)..... \$.....
22. Accumulation of income at end of the year (line 20 plus line 21)..... \$.....

**DISBURSEMENTS MADE OUT OF PRINCIPAL FOR PURPOSES FOR WHICH EXEMPT**

23. Administrative and operating expenses..... \$.....
24. Contributions, gifts, grants, etc.:
  - (a) Paid out in prior years..... \$.....
  - (b) Paid out within the year: (Attach list showing each class of activity for which disbursements were made with separate total for each. Also show to whom paid. If made to individuals related by blood, marriage, or adoption to any person having an interest in the organization such as director, trustee, officer, donor, etc., state relationship.)..... \$.....

**RECEIPTS NOT REPORTED ELSEWHERE ON THIS FORM**

25. Contributions, gifts, grants, etc., received (See instruction 3)..... \$.....

**SIGNATURE AND VERIFICATION (See Instruction 8)**

I declare under the penalties of perjury that this return (including any accompanying schedules and statements) has been examined by me and to the best of my knowledge and belief is a true, correct, and complete return.

CORPORATE  
SEAL

(Date)

(Signature of officer)

(Title)

I declare under the penalties of perjury that I prepared this return for the person named herein and that this return (including any accompanying schedules and statements) is, to the best of my knowledge and belief, a true, correct, and complete return based on all the information relating to the matters to be reported in this return of which I have any knowledge.

(Date)

(Individual or firm signature)

(Address)

46-16-63779-5

## Schedule A.—BALANCE SHEETS (See Instruction 6)

	Beginning of Year		End of Year	
	Amount	Total	Amount	Total
<b>ASSETS</b>				
1. Cash .....		\$.....		\$.....
2. Notes and accounts receivable .....	\$.....		\$.....	
Less: Reserve for bad debts .....				
3. Inventories .....				
4. Investments in governmental obligations .....				
5. Investments in nongovernmental bonds, etc. ....				
6. Investments in corporate stocks .....				
7. Other investments (itemize) .....	\$.....		\$.....	
8. Capital assets:				
(a) Depreciable (and depletable) assets (Attach itemized schedule) .....	\$.....		\$.....	
Less: Reserve for depreciation (and depletion) ..				
(b) Land .....				
9. Other assets (itemize) .....	\$.....		\$.....	
10. Total assets .....		\$.....		\$.....
<b>LIABILITIES</b>				
11. Accounts payable .....		\$.....		\$.....
12. Bonds, notes, and mortgages payable:				
(a) With original maturity of less than 1 year .....	\$.....		\$.....	
(b) With original maturity of 1 year or more .....				
13. Other liabilities (itemize) .....	\$.....		\$.....	
14. Total liabilities .....		\$.....		\$.....
<b>NET WORTH</b>				
15. Capital stock:		\$.....		\$.....
(a) Preferred stock .....	\$.....		\$.....	
(b) Common stock .....				
16. Membership certificates .....				
17. Paid-in or capital surplus (or donated capital if a trust)				
18. Surplus reserves (itemize) .....	\$.....		\$.....	
19. Earned surplus and undivided profits .....				
20. Total net worth .....		\$.....		\$.....
21. Total liabilities and net worth .....		\$.....		\$.....

## 1. State nature of activities (Attach detailed statement)

2. Have you filed a tax return on Form 990-T for this year, ... ☐ Yes ☐ No

Unrelated business gross income reported..... \$.....

3. What is the legal form of your organization (corporation, trust, unincorporated association, etc.)? .....

4. If successor to previously existing organization(s), give name(s) and address(es) of the predecessor organization(s) .....

5. Was a Form 990-A filed for the preceding year?..... ☐ Yes ☐ No  
If "Yes," to which District Director's office was it sent? .....

6. If you have capital stock issued and outstanding, state with respect to each class of stock—

- (a) The number of shares outstanding.....
- (b) The number of shares held by individuals.....
- (c) The number of shares held by organizations.....
- (d) The number of shareholders at end of year.....
- (e) Whether any dividends may be paid..... ☐ Yes ☐ No

7. If you acquired capital assets out of income, attach itemized list and amount thereof.

8. Have any changes not previously reported to the Internal Revenue Service been made in your articles of incorporation or bylaws or other instruments of similar import?..... ☐ Yes ☐ No

If "Yes," attach a copy of the amendments in duplicate.

9. Have you had any sources of income or engaged in any activities not previously reported to the Internal Revenue Service?..... ☐ Yes ☐ No

If "Yes," attach detailed statement in duplicate.

10. Did you hold any real property for rental purposes on which there is an indebtedness incurred in acquiring the property or in making improvements thereto?..... ☐ Yes ☐ No

If "Yes," attach detailed statement in duplicate.

11. Have you during the year either advocated or opposed (including the publishing or distributing of statements) any legislation, national, State, or local?..... ☐ Yes ☐ No

If "Yes," attach a detailed statement of such activities.

12. Have you during the year participated in, or intervened in (including the publishing or distributing of statements) any political campaign on behalf of any candidate for public office?..... ☐ Yes ☐ No

If "Yes," attach a detailed statement of such activities.

13. After July 1, 1950, did—

The creator of your organization, or  
A contributor to your organization, or  
A brother or sister (whole or half blood), spouse, ancestor, or lineal descendant of such creator or contributor, or  
A corporation owned (50 percent or more of voting stock or 50 percent or more of value of all stock) directly or indirectly by such creator or contributor

(a) Borrow any part of your income or corpus?..... ☐ Yes ☐ No(b) Receive any compensation for personal services from you?..... ☐ Yes ☐ No(c) Have any part of your services made available to him?..... ☐ Yes ☐ No(d) Purchase any securities or other property from you?..... ☐ Yes ☐ No(e) Sell any securities or other property to you?..... ☐ Yes ☐ No(f) Have any part of your income or corpus diverted to him by any transaction?..... ☐ Yes ☐ No

If answer to any question is "Yes," attach detailed statement in duplicate.



U. S. Treasury Department—Internal Revenue Service  
**U. S. RETURN OF ORGANIZATION EXEMPT FROM TAX**  
Section 501 (c) (3) of Internal Revenue Code of 1954

Page 3  
**DO NOT WRITE  
IN SPACE BELOW**  
Serial No. \_\_\_\_\_

This return must be filed on or before the 15th day of the fifth month following the close of the annual accounting period. Return must be filed with the District Director of Internal Revenue for the district in which is located the principal place of business or principal office of the organization.

NOTICE.—The law requires that certain information required on this return be made available to the public. Pages 3 and 4 are designed for this purpose and must be submitted as part of your return.

FOR CALENDAR YEAR .....

Or other taxable year beginning ..... 19.....  
and ending ..... 19.....

Please type or print plainly

Date of exemption letter

Legal name of organization

Address (number and street)

(City or town, postal zone number, county, and State)

Line No.

**GROSS INCOME**

- |  |         |  |
|--|---------|--|
| 1. Gross sales or receipts from business activities.....                                   | \$..... |  |
| 2. Less: Cost of goods sold or of operations.....  |         |  |
| 3. Gross profit from business activities.....  | \$..... |  |
| 4. Interest .....  |         |  |
| 5. Dividends .....   |         |  |
| 6. Rents and royalties .....   |         |  |
| 7. Gain (or loss) from sale of assets, excluding inventory items (See instruction 2) ..... |         |  |
| 8. Other income .....  |         |  |
| 9. Total gross income (lines 1 to 8, incl.).....   | \$..... |  |

**INCURRED EXPENSES ATTRIBUTABLE TO GROSS INCOME**

- |   |         |  |
|---|---------|--|
| 10. Compensation of officers, directors, trustees, etc. ....                            | \$..... |  |
| 11. Salaries and wages (other than amounts shown in line 10). Number of employees ..... |         |  |
| 12. Interest .....  |         |  |
| 13. Taxes .....   |         |  |
| 14. Rent .....  |         |  |
| 15. Depreciation .....  |         |  |
| 16. Miscellaneous expenses .....  |         |  |
| 17. Total expenses (lines 10 to 16, incl.) .....  | \$..... |  |

**DISBURSEMENTS MADE WITHIN THE YEAR OUT OF CURRENT OR ACCUMULATED INCOME FOR PURPOSES FOR WHICH EXEMPT, AND ACCUMULATION OF INCOME**

- |  |         |  |
|--|---------|--|
| 18. Administrative and operating expenses (not included above) .....   | \$..... |  |
| 19. Contributions, gifts, grants, etc.: (Attach list showing each class of activity for which disbursements were made with separate total for each.) ..... | \$..... |  |
| 20. Accumulation of income within the year (line 9 less the sum of lines 17, 18, and 19) .....   | \$..... |  |
| 21. Aggregate accumulation of income at beginning of the year (computed for prior years as on line 20) .....   | \$..... |  |
| 22. Accumulation of income at end of the year (line 20 plus line 21) .....   | \$..... |  |

**DISBURSEMENTS MADE OUT OF PRINCIPAL FOR PURPOSES FOR WHICH EXEMPT**

- |  |         |  |
|--|---------|--|
| 23. Administrative and operating expenses .....  | \$..... |  |
| 24. Contributions, gifts, grants, etc.: .....  | \$..... |  |
| (a) Paid out in prior years .....  | \$..... |  |
| (b) Paid out within the year: (Attach list showing each class of activity for which disbursements were made with separate total for each.) ..... | \$..... |  |

	Beginning of Year		End of Year	
	Amount	Total	Amount	Total
<b>ASSETS</b>				
1. Cash.....	\$.....	\$.....	\$.....	\$.....
2. Notes and accounts receivable.....	\$.....		\$.....	
Less: Reserve for bad debts.....				
3. Inventories.....				
4. Investments in governmental obligations.....				
5. Investments in nongovernmental bonds, etc.....				
6. Investments in corporate stocks.....				
7. Other investments (itemize).....	\$.....		\$.....	
8. Capital assets:				
(a) Depreciable (and depletable) assets.....	\$.....		\$.....	
Less: Reserve for depreciation (and depletion).....				
(b) Land.....				
9. Other assets (itemize).....	\$.....		\$.....	
10. Total assets.....		\$.....		\$.....
<b>LIABILITIES</b>				
11. Accounts payable.....		\$.....		\$.....
12. Bonds, notes, and mortgages payable:				
(a) With original maturity of less than 1 year.....	\$.....		\$.....	
(b) With original maturity of 1 year or more.....				
13. Other liabilities (itemize).....	\$.....		\$.....	
14. Total liabilities.....		\$.....		\$.....
<b>NET WORTH</b>				
15. Capital stock:				
(a) Preferred stock.....	\$.....		\$.....	
(b) Common stock.....				
16. Membership certificates.....				
17. Paid-in or capital surplus (or donated capital if a trust).....				
18. Surplus reserves (itemize).....	\$.....		\$.....	
19. Earned surplus and undivided profits.....				
20. Total net worth.....		\$.....		\$.....
21. Total liabilities and net worth.....		\$.....		\$.....

## GENERAL INSTRUCTIONS

1. An annual statement of gross income, receipts, disbursements, etc., on this form, is required by law of every organization which is exempt from tax as described in section 501 (c) (3) of the Code, excepting only (1) a religious organization; (2) an educational organization if it normally maintains a regular faculty and curriculum and normally has a regularly organized body of pupils or students in attendance at the place where its educational activities are regularly carried on; (3) a charitable organization, or an organization for the prevention of cruelty to children or animals, if supported in whole or in part by funds contributed by the United States or any State or political subdivision thereof, or primarily supported by contributions of the general public; (4) or an organization operated, supervised, or controlled by or in connection with a religious organization described in section 501 (c) (3). The law also requires that every such organization furnish the information called for on pages 3 and 4 and that such information be made available to the public. The law provides penalties for failure to furnish this information.

2. Attach a detailed statement showing with respect to each piece of property sold: (a) Date acquired and manner of acquisition; (b) Gross sales price; (c) Cost or other basis (value at time of acquisition, if donated); (d) Expense of sale and cost of improvements subsequent to acquisition; (e) Depreciation since acquisition; and (f) Gain or loss—(b) plus (e) minus (c) plus (d).

3. In all cases where line 25, page 1, includes money or property amounting to \$100 or more, which was received directly or indirectly from one person, in one or more transactions during the year, itemized schedules showing the total amount received from and the name and address of each such person shall be attached to this return. (The term "person" includes individuals, fiduciaries, partnerships, corporations, associations, and other organizations.)

4. Expenses may be divided between lines 10 through 16, page 1, and lines 18 and 23, page 1, on the basis of accounting records. If

such records do not provide for this division, expenses may be divided on any reasonable basis, such as an approximation of the use of a facility or the time spent by an individual.

5. Activities in lines 19 and 24 (b), page 1, should be classified according to purpose in greater detail than merely charitable, educational, religious, or scientific. For example, payments for nursing service, for laboratory construction, for fellowships, or for assistance to indigent families should be so identified.

The detailed list of organizations and individuals to whom payments were made as well as other itemized statements called for on page 1 should be attached to page 2. Duplicates are not required in connection with pages 3 and 4.

6. The balance sheets, Schedule A, should agree with the books of account or any differences should be reconciled.

7. In all cases where line 6, Schedule A, includes 10 percent or more of any class of stock of any corporation, attach a list showing the name of the corporation, the number of shares of each type of stock owned (including information indicating whether the stock is voting or nonvoting), and the book value of the stock included in line 6, Schedule A.

8. Signature and verification.—The return must be signed either by the president, vice-president, treasurer, assistant treasurer or chief accounting officer, or by any other officer authorized to sign. A receiver, trustee, or assignee must sign any return which he is required to file on behalf of a corporation. The statement at the bottom of page 1 of the return is required to be signed by any person, firm, or corporation who prepared the taxpayer's return. If the return is prepared by a firm or corporation, it should be signed in the name of the firm or corporation. The statement is not required if the return is prepared by a regular, full-time employee.

9. For further information see regulations under sections 6033 (a), 501 (a), and 6104 of the Internal Revenue Code.

**Form 990-T.**—Section 511 of the Code imposes a tax in case of certain organizations described in sections 401 (a) and 501 (c) (2), (3), (5), and (6), on income derived (a) from operation of a business enterprise which is unrelated to the purpose for which such organization received an exemption or (b) from certain rentals from property leased to others on a long-term basis. Such income and tax are to be reported on Form 990-T, copies of which may be obtained from the District Director of Internal Revenue.

**Form 1099.**—Every organization engaged in a trade or business making payments in the course of such trade or business of interest, rents, commissions, salaries or wages, or other fixed or determinable income (including allowances for expenses) or amounts of \$600 or more during the calendar year shall make returns on Forms 1096 and 1099, except that the making of such return will not be required

BY A TRUST CLAIMING CONTRIBUTIONS DEDUCTION UNDER SECTION 642 (c) OF THE INTERNAL REVENUE CODE OF 1954  
(To be made available to the public as required by section 6104 of the Internal Revenue Code of 1954)

FOR CALENDAR YEAR \_\_\_\_\_

or Fiscal Year Beginning \_\_\_\_\_ and Ending \_\_\_\_\_

<p>This return must be filed on or before the 15th day of the 4th month following the close of the taxable year of the trust. Return must be filed with the District Director for the district in which the fiduciary resides or has his principal place of business.</p>	PRINT PLAINLY NAME AND ADDRESS OF TRUST		(Date received)
	_____ (Give name of trust in full)		
	_____ (Street and number)		
	_____ (City or town)	_____ (Postal zone number)	_____ (State)

Item No.

GROSS INCOME

- |   |         |         |
|---|---------|---------|
| 1. Gross sales or receipts from business activities.....                      | \$..... |         |
| 2. Less: Cost of goods sold or of operations (attach itemized statement)..... |         |         |
| 3. Gross profit from business activities.....                                 |         | \$..... |
| 4. Interest.....  |         |         |
| 5. Dividends.....   |         |         |
| 6. Rents and royalties.....   |         |         |
| 7. Gain (or loss) from sale of assets, excluding inventory items.....         |         |         |
| 8. Other income.....  |         |         |
| 9. Total gross income (items 1 to 8, inclusive).....                          | \$..... |         |

EXPENSES ATTRIBUTABLE TO GROSS INCOME

- |   |         |  |
|---|---------|--|
| 10. Compensation of trustees.....                                 | \$..... |  |
| 11. Salaries and wages (other than amounts shown in item 10)..... |         |  |
| 12. Interest.....   |         |  |
| 13. Taxes.....  |         |  |
| 14. Rent.....   |         |  |
| 15. Depreciation.....   |         |  |
| 16. Miscellaneous expenses.....                                   |         |  |
| 17. Total expenses (items 10 to 16, inclusive).....               | \$..... |  |
| 18. Gross income less expenses (item 9 less item 17).....         | \$..... |  |

CHARITABLE, ETC., CONTRIBUTIONS PAID OR PERMANENTLY SET ASIDE

List in 19 (b) and (c), 20 (b), and 22 (b) each class of activity for which disbursements were made (or amounts were permanently set aside) and show separate total for each class

19. Charitable, etc., deductions taken within this year under section 642 (c) of Code:

- |   |         |  |
|---|---------|--|
| (a) Total.....  | \$..... |  |
| (b) Paid out during this year:                            |         |  |
| .....   | \$..... |  |
| .....   |         |  |
| .....   | \$..... |  |
| (c) Not paid out at end of year (item (a) less item (b)): |         |  |
| .....   | \$..... |  |
| .....   |         |  |
| .....   | \$..... |  |

20. Charitable, etc., deductions taken but not paid out in prior years under section 642 (c) of Code:

- |   |         |  |
|---|---------|--|
| (a) Total not paid out at beginning of this year.....         | \$..... |  |
| (b) Paid out during this year:                                |         |  |
| .....   | \$..... |  |
| .....   |         |  |
| .....   | \$..... |  |
| (c) Not paid out at end of year (item (a) less item (b))..... | \$..... |  |

21. Total deductions under section 642 (c) not paid out (item 19 (c) plus item 20 (c)).....

22. Paid out of principal for charitable, etc., purposes:

- |                                  |         |  |
|----------------------------------|---------|--|
| (a) Paid out in prior years..... | \$..... |  |
| (b) Paid out within this year:   |         |  |
| .....                            | \$..... |  |
| .....                            |         |  |
| .....                            | \$..... |  |

SIGNATURE AND VERIFICATION

I declare under the penalties of perjury that this return (including any accompanying schedules and statements) has been examined by me, and to the best of my knowledge and belief, is a true, correct, and complete return.

(Signature of fiduciary or officer representing fiduciary)	(Address of fiduciary or officer)	(Date)
I declare under the penalties of perjury that I prepared this return for the fiduciary named herein; and that this return (including any accompanying schedules and statements) is, to the best of my knowledge and belief, a true, correct, and complete return based on all the information relating to the matters required to be reported in this return of which I have any knowledge.		

(Individual or firm signature)

(Address)

(Date)  
16-63771-3

ASSETS			
1. Cash.....			\$ .....
2. Notes and accounts receivable.....	\$ .....		
Less: Reserve for bad debts.....			
3. Inventories.....			
4. Investments in governmental obligations.....			
5. Investments in nongovernmental bonds, etc.....			
6. Investments in corporate stocks.....			
7. Other investments (itemize).....	\$ .....		
8. Capital assets:			
(a) Depreciable (and depletable) assets (attach itemized schedule).....	\$ .....		
Less: Reserve for depreciation (and depletion).....			
(b) Land.....			
9. Other assets (itemize).....	\$ .....		
10. Total assets.....			\$ .....
LIABILITIES			
11. Accounts payable.....			\$ .....
12. Bonds, notes, and mortgages payable:			
(a) With original maturity of less than 1 year.....	\$ .....		
(b) With original maturity of 1 year or more.....			
13. Other liabilities (itemize).....	\$ .....		
14. Total liabilities.....			\$ .....
NET WORTH			
15. Trust principal or corpus.....	\$ .....		
16. Undistributed earnings and profits.....			
17. Total net worth.....			\$ .....
18. Total liabilities and net worth.....			\$ .....

## GENERAL INSTRUCTIONS

1. Every trust claiming in its Federal income tax return for the taxable year a charitable, etc., deduction under the provisions of section 642 (c) of the Internal Revenue Code of 1954 is required by law to furnish for such year the following information:

- (1) the amount of the charitable, etc., deduction taken under section 642 (c) 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 642 (c) 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.

2. Section 6104 of the Internal Revenue Code of 1954, provides as follows:

“(c) INFORMATION AVAILABLE TO THE PUBLIC.—The information required to be furnished by sections 6033(b) and 6034, 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 or his delegate may prescribe.”

Accordingly, this return will be made available for inspection by the public at the office of the District Director of Internal Revenue in which it is filed.

3. Activities in items 19 (b) and (c), 20 (b), and 22 (b) should be classified according to purpose in greater detail than merely charitable, educational, religious, or scientific. For example, payments for nursing service, laboratory construction, for fellowships, or for assistance to indigent families should be so identified.

4. The balance sheet, Schedule A, should agree with the books of accounts or any difference should be reconciled.
5. Severe penalties are provided by law for failure to furnish this information.
6. For further information see regulations under section 6034 of the Internal Revenue Code.





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