

"I would not want my statement or inquiry to reflect the thinking that I am not a believer or do not recognize the importance of this program and of all our research programs, but one of the disturbing aspects of science and our so-called research, which in a sense is science, is that we seem to be having it coming out of our ears."

The product of this inquiry was a committee report holding NSF to its previous budget of \$323 million. Ambitious plans for supporting the developing of "centers of excellence" were specifically barred; the fellowship expansion was ruled out, and the committee recommended that NSF be barred from transferring any of its funds to other agencies. This apparently was another slap at Wiesner, whom the committee suspects of end running Congress by allocating NSF funds to other agencies. The Senate will soon have its say, but, in any case, Congress and science don't appear to be in very good shape. Significantly, when the Thomas' committee recommendations came to the floor, as part of a huge spending bill covering scores of federal agencies, not one of the 435 members rose to say anything in behalf of NSF.—D. S. GREENBERG

Foundations: Patman Plugs Away At Theme that Growth, Operations of Tax Exempts Call For Scrutiny

The leading congressional critic of tax policy on nonprofit foundations called the matter to public attention again recently when he complained that he found too many friends of foundations on a Treasury panel looking into the question of foundations and the taxes they do not pay.

Representative Wright Patman (D-Tex.), who takes an anti-trustful view of the activities of tax-exempt foundations, was referring to a task force formed by the Treasury following publication in December of the congressional committee print *Tax-Exempt Foundations and Charitable Trusts: Their Impact On Our Economy*.

The report carried the subtitle "Chairman's Report to the Select Committee on Small Business." Patman was then chairman of the committee, and the report bears, as the subtitle implies, a strong personal touch.

A second and bigger installment of information on the foundations is soon

to appear and is likely to prompt a round of discussion of foundation management and financial operations, as did the first Patman report last winter.

Statistical heart of the first report was a staff analysis of the assets, liabilities, net worth, and so forth, of some 534 foundations, including most of the richest and best known. It should be noted that no hearings have yet been held and the foundations, therefore, have not had an opportunity to answer the charges stated and implied in the report.

The avowed objective of the study was to "determine whether legislation is needed in order to provide effective supervisory controls over tax-exempt foundations and protect the public." The tone of the report is sharply critical, and in it Patman repeats a drastic recommendation he made in the House a year ago—that there be an immediate moratorium on the granting of tax-exempt status to foundations.

His reasons for recommending a moratorium were, in short form, as follows.

"1. Laxness and irresponsibility on the part of the Internal Revenue Service.

"2. Violations of law and Treasury regulations by far too many of the foundations encompassed in [the] study.

"3. The withdrawal of almost \$7 billion from the reach of tax collectors for taxable years 1951 through 1960. This amount represents the total receipts of only 534 out of an estimated 45,124 tax-exempt foundations.

"4. The rapidly increasing economic power in foundations which—in [Patman's] view—is far more dangerous than anything which has happened in the past in the way of the concentration of economic power.

"5. Foundation controlled enterprises possess the money and the competitive advantages to eliminate the small businessman."

Despite this wide-ranging indictment, no severe shock waves from resentment against foundations are detectable in Congress as a whole, and it appears that no drastic changes in laws governing foundations are imminent. What is significant, however, is the Texan's being on the trail of the foundations, for Patman, as one seasoned observer of the congressional scene puts it, is "relentless."

Like Inspector Javert in *Les Misérables*, Patman has a reputation as an

investigator who never gives up. And as fifth-ranked Democrat in seniority in the House and a very hard worker, he has collected a clutch of committee portfolios which make him an effective operative.

First, Patman, who was elected to the House in 1928, is chairman of the House Banking and Currency Committee. His investigation of foundations, however, was undertaken when he was chairman of the House Select Committee on Small Business. He gave up that chairmanship at the start of the current session of Congress when he succeeded to the chairmanship of Banking and Currency, but he retained his chairmanship of the Small Business subcommittee on foundations. Foundations fall under the jurisdiction of this subcommittee because of their putative impact on small business.

For good measure, the 70-year-old Patman is listed as vice-chairman of the Joint Committee on Defense Production and chairman of two subcommittees of the Joint Economic Committee.

Despite his seniority and authority, Patman lacks the ultimate influence of a few men, such as Wilbur Mills (D-Ark.), chairman of the Ways and Means Committee, and Albert Thomas (D-Tex.), chairman of two pivotal Appropriations subcommittees, whose pronouncements on their own subjects have the effect of instant persuasion because they lead the House and express its will at the same time. For Patman is known as a crusader, as something of a Populist out to beard the mighty, with views—on the interest rate, for example—which the House often does not share.

Patman, however, is regarded in the House as well informed and a doughty investigator. And if he can produce convincing evidence to support his criticism of foundations, the Members are likely to line up behind him.

To date, the evidence of record is contained in the 135 quarto-sized pages of the Patman report, published on the last day of 1962. How much attention it attracted is indicated by the rapid exhaustion of the 5500 copies printed. Both the Government Printing Office, which sold the report at 65 cents a copy, and the committee were soon out of the reports, and a steady demand for them has had to go unmet. The projected new report is expected to obviate the need for a second printing.

The attitude underlying the first report is revealed in its recommendations section, with the observation, "We must start with the fact that when an organization is tax exempt, it means that all other taxpayers must pick up the tab. Correspondingly, when any taxpayer reduces his tax by a deduction for contribution to a foundation it means that all other taxpayers must make up for the tax reduction."

Patman seems to regard foundation law as forming a big tax loophole through which slip rich revenues at the expense of humbler taxpayers, including those in the Texas first district, which he represents.

The Patman report is uncluttered with analyses of how well or poorly foundations have served the public interest, which is, after all, the basis for their tax-exempt status. Rather, the investigators have taken an accounting approach, setting qualitative evaluations aside. In looking into the financial arrangements and operations—subjects which most readers of the report would agree need looking into—the investigators fail to make some useful distinctions.

The report, for example, says that the Internal Revenue Service (IRS) reports an increase in the number of tax-exempt foundations from 12,295 at the end of 1952 to 45,124 in 1960. These totals apparently refer to the organizations which filed IRS Form 990-A's, which are returns used by foundations exempt from income tax.

The IRS estimates, on the other hand, that there are about 15,000 foundations, a number that agrees roughly with that put forward by the Foundation Library Center, a kind of clearinghouse on foundation matters which produced *The Foundation Directory*. Patman's higher figure apparently includes state and local chapters of national organizations with foundation status, such as the Daughters of the American Revolution.

Foundations are, of course, only one type of tax-exempt institution. The IRS puts the full number at some 70,000, ranging from educational, social, and welfare organizations to trade and professional associations and labor unions.

The report, in its general remarks, tends to lump all foundations together, although there are significant differences in size, type, and performance among them. In the public mind, the foundation is typified by the big, general research foundation with large

endowment or receipts, having a board of trustees and a sizable professional staff and operating a program of philanthropy and research support with national impact. The foundations created by the Carnegie, Rockefeller, Ford, and Guggenheim fortunes exemplify the type. Founders and their descendants have played varying roles in these foundations. Less than 200 of these general research foundations control some two-thirds of all foundation assets.

Then there are the family foundations which, typically, are set up by a donor during his life and ultimately may grow through benefactions into a general research foundation.

Another type of foundation which, like the family foundation, has proliferated in the high-tax climate of the past two decades is the company foundation. Usually the income of the company foundation is derived not from endowment or bequests but from current giving by the founding company. Company officials ordinarily direct the foundation, and the programs of such foundations characteristically benefit the company's employees or stockholders or the community in which the company operates.

Special-purpose foundations are restricted by charter to support of one or a few institutions or endeavors, and so-called community trusts have similarly limited scope.

The opportunities and the temptations inherent in differing types of foundations also differ.

Patman, in his report, hits mainly at two aspects of foundation operations: removal of income from the tax rolls and concentration of economic power.

The 534 foundations surveyed in the Patman study were said to have had aggregate untaxed receipts of nearly \$7 billion during the 10 years covered by the study. During the decade, the foundations disbursed about \$3.5 billion. Expenses for administrative and operating expenses were put at \$721 million, or an average of about 10 percent. Some foundations covered in the survey greatly exceeded this average.

A major concern of Patman's is that through ownership of large blocks of corporate stock the foundations may exert major economic pressure in a number of ways. A family may perpetuate control of a company through a tax-exempt foundation which owns a controlling block of stock. Or a foundation with large stock holdings may speculate

with great effect. Patman has labeled as "unfinished business" an investigation of the possible effect of foundation stock operations in the 1962 stock market break.

Benefactors of Great Wealth

Furthermore, pointing out gains of \$1.5 billion by foundations from sale of assets from 1950 through 1960, Patman "suggests that many foundations have become a vehicle for trading in securities and dodging the capital gains tax. Foundations capital gains are not only tax exempt, but the foundations are permitted to place them in the principal account instead of the income account."

The Commissioner of Internal Revenue, Mortimer M. Caplin, is on record as having noted abuses by some foundations of their tax-exempt status. He put them succinctly in eight categories.

These abuses, according to Caplin, are "self-dealing" through foundations; unreasonable accumulation of income; speculative investments; competing for interest and rental incomes; manipulation of leases; donation of nonincome producing property, "especially where the donor holds and enjoys the donated property"; overvaluation of art and other properties; and faulty filing of information returns.

The IRS, a favorite Patman target for criticism, has, in fact, been pushing a foundation tax compliance program along three lines of remedial action: (i) revision of Form 990-A to require more detailed reporting and to open more information to public inspection; (ii) an expanded audit program with 10,000 tax-exempt organizations scheduled to have their returns audited this year; (iii) studies within IRS and other agencies on administration and legislation.

Caplin has acknowledged that "there are still many unresolved administrative and legal interpretative issues which give rise to uncertainty," and the Patman blast 2 weeks ago was directed at one attempt within the executive branch to come to grips with the problem.

A task force of citizens to look into the foundation situation was proposed by Treasury Assistant Secretary Stanley Surrey early this year, and Patman bridled when he learned that about half the members, however distinguished, had foundation links. According to congressional sources, these panel members were Carnegie Foundation chairman Morris Hadley; Carnegie Institute

of Washington vice chairman Barklie M. Henry; Guggenheim Memorial Foundation president Henry M. Moe; Shell Company Foundation vice president Walter M. Upchurch, Jr.; Russell Sage Foundation president Donald Young; and F. Emerson Andrews, director of the Foundation Library Center.

Patman nominated to the task force, and Surrey accepted, Robert Mueller, an Austin attorney, James G. Patton, president of the National Farmers Union, and Jack S. Seidman, head of a New York accounting firm, who is credited in the report as having given advice on the study.

Patman complained that he and Mueller were informed belatedly, on 12 September, of the first meeting of the panel scheduled for the next day, and he also said he had not been able to obtain a full list of task force members.

Surrey says that the task force is not a formally constituted panel expected to issue a report as a definitive guide to action, but rather a group of able and experienced persons contributing to only one effort of the Treasury to review and revise tax policy on the foundations.

IRS Commissioner Caplin probably summarized the government position when he said this year that the foundations have an outstanding record of accomplishment, but that their tax-exempt status is threatened by some foundations which abuse their privileges.

The status of the foundations, either in tax law or in public opinion, does not appear in immediate danger. But the sheer growth of foundations and other tax-exempt organizations in wealth and economic power and the tactics of some foundations cloud the future.

In some jeopardy is a form of private support for science, and for other forms of scholarship and the arts, which few would deny has served as a beneficial complement, in terms of quality, enterprise, and, often, frugality, to government support.

The privileged position of foundations is based on the assumption that they are devoted to advancing the public interest, and Patman and other critics may force a reconsideration of status of all foundations by marshaling evidence to show that some foundations don't work that way.

—JOHN WALSH

Science and Government: OECD Ministers for Science Compare Experiences on National Policies

Ministers responsible for science in the 20 member governments of the Organization for Economic Cooperation and Development gathered in Paris on 3 and 4 October for a meeting which points up the fact that worrying over the relations between science and government has become an international avocation.

What prompted the meeting was not simply the awareness of governments that modern science is big and that it is dependent on public support. The impulse for the meeting, rather, was a growing awareness that science affects all national policy and that, given the excess of scientific opportunities over resources, governments are faced with the job of elaborating criteria to guide their allocation. Underlying the ministers' discussions was the conviction, expressed in a background paper prepared by OECD's Advisory Group on Science Policy, that "except for its implications for human welfare, and therefore also for [government] policy, few but professional scientists would care how fast or whether science advanced, or in what directions." The ministers compared notes on three broad subjects—science and economic growth, national science policies, and the policies of international scientific organizations.

The organization that brought the science ministers together, the OECD, is an outgrowth of the organization through which American Marshall Plan aid was coordinated among European governments after World War II. The organization was transformed in 1961 to include non-European countries (the U.S. and Canada are members, and Japan will soon become one), and it has retained a special interest in economic development.

Little special pleading was needed to persuade the ministers that technological innovation, based on scientific research and development, has become an important source of economic growth. With government as the principal financial angel of R&D, however, not only in the U.S. but abroad, pressures have risen for governments to take responsibility for a more integrated national R&D effort. "On the whole," the ministers were informed in a background paper, "Governments have been loathe to recognize their responsibil-

ities concerning the level and balance of the nation's R&D effort. Government policies have evolved haphazardly, being influenced at times by the special interests of government departments, at times by lines of thought advocated in influential scientific circles."

From there, it is a short step to talking about national science policies. An excellent monograph prepared by OECD's Advisory Group on Science Policy, "Science and the Policies of Governments: The Implications of Science and Technology for National and International Affairs," provided a framework—sharp on analysis, if a bit weak on solutions—for the ministers' discussions.

The monograph talks about a policy for science—that is, a policy specifically for the advancement of science—but it concentrates on the role of science in general policy in fields as disparate as agriculture, education, defense, and foreign aid. The influence of science on general government policy is most intimate, the paper argues, in the case of education and manpower, where rapidly accumulating new subject matter may affect school curriculums, where professional retraining is necessary for scientists and engineers who discover that "the specialities in which they were initially trained are shorter-lived than they," and where future needs of trained manpower must be anticipated.

Military policy, the monograph says, is "dependent on science in virtually all its aspects." And even the influence of science on foreign policy, the paper stresses, is "deeper and more pervasive than normally appreciated," not only because national prestige is sensitive to scientific accomplishment but because national scientific programs must be coordinated with commitments to international scientific activities, and because many international treaties and agreements have a significant technical content.

"To say that a government needs an articulated science policy," the paper says, "is simply to note that there has devolved upon that government a major and continuing responsibility to make choices about issues that involve science. . . . Making a nation's science policy is a matter of projecting future research and technological needs, as well as requirements for trained manpower, of assessing the adequacy and overall balance of the country's civil and defense research effort, of program-