

is often in competition with taxpaying businesses. Tax-exempt organizations such as the Rand Corporation and the Institute for Defense Analysis, both of which execute research contracts for the U.S. Government and particularly the Department of Defense, are in direct competition with many taxpaying companies. Why should these firms be accorded special tax advantages if their private competitors do not receive similar advantages? I submit that the legislation providing for tax-exempt organizations was never intended to create unfair competition and I see no reason why it should be allowed today. If the objective is to foster basic research for the benefit of the general public, then I have no objection, but when that research is turned into a profit-making business it should not be allowed.

In your Subcommittee study dated December 31, 1962, there are a number of examples of business activities of these tax-exempt research organizations which are in direct competition with taxpaying businesses. I would like to mention one as an example of this problem. The Stanford Research Institute of Menlo Park, California, a tax-exempt research organization, made a study entitled "An Economic Study of the Ventura River Municipal Water District" for a combine of oil and development companies for a reported fee of \$60,000. This is work customarily performed by consulting engineers in private practice. Your report lists many similar cases, but the point is this: if our present law is so weak that these tax-exempt organizations are allowed to operate businesses in competition with taxpaying businesses, then our tax laws need drastic reform.

Such reform should be based on the following assumption: When a business is operated by a tax-exempt organization, regardless of whether it is related or unrelated to the organization's exempt purpose, or whether its income is taxed or untaxed, it holds an unfair advantage over its taxpaying competitors. The deciding factor, therefore, should not be whether a business is related to the organization's exempt purpose, but whether it is in competition with taxpaying businesses. My proposal would prohibit a tax-exempt organization from owning, either directly or through stock holdings, 20% or more of *any* business. This is similar to the 1965 Treasury Department proposal I mentioned earlier, but it is not limited to unrelated businesses. I would, however, agree to the exceptions recommended by the Treasury Department and to the time period given tax-exempt organizations to reduce their business holdings.

Mr. Chairman, my statement today covers only a small part of the total problem of reforming our tax laws, but it is a very important part. It is the taxpaying businessman, and eventually the average taxpaying American, who must pick up the tab for the tax-exempt foundations. It is argued, and I think with ample justification, that tax-exempt foundations do things that would otherwise have to be done by government, or that cannot be done by anyone else; I would not challenge this argument, and I would not abolish tax-exemption for such activities. But this same argument cannot be used to justify businesses owned and operated by tax-exempt organizations; it is this area of abuse that I would like to see eliminated.