

Example 10.—A recent report on foundations sets forth details of the numerous loans which the J, K, and L foundations made during the period from 1951 through 1961 to various of the business corporations in which they held controlling or substantial interests.¹⁸ The total of this indebtedness on December 31, 1956, was \$1,897,605. These foundations appear to have entered into at least 36 separate loan transactions with their corporations during the designated period, many involving sums in excess of \$100,000.¹⁹

Another advantage which foundation businesses have over their taxable competitors is their freedom from the demands of shareholders for current distributions of earnings. A remarkable number of foundation-owned enterprises proceed from year to year realizing substantial profits, but making negligible or no distributions to their parent organizations.

Example 11.—The A foundation, referred to in example 1, received no dividends for either 1961 or 1962 from its newspaper corporation, its lumber company, or its S, T, or U real estate corporations, despite the fact that all of those companies earned substantial profits during both years.

Example 12.—The M company, a department store, entered its fiscal year ending in 1961 with a retained earned surplus of almost \$4 million. During that year and the 2 following years it enlarged this surplus with earnings of \$365,819, \$193,450, and \$149,320, respectively. It paid no dividends to its parent foundation during any of these years.

Example 13.—The dividends which the E foundation, referred to in example 5, has received from its department store subsidiary for the years 1960 through 1963 have ranged from less than 1½ percent of the book value of its equity in the corporation as reflected on the corporation's February 1, 1962, balance sheet. In each of these years the store's after-tax net income has been considerably more than twice as much as the total dividend paid.

This common willingness of foundations to defer indefinitely the realization of profits from their commercial operations—an attitude frequently not shared by the shareholders of other businesses—make it possible for the profits to be invested in modernization, expansion and other programs which improve the competitive posture of the foundation-owned business.²⁰

The various advantages of foundation-held businesses can make them formidable and successful competitors.

Example 14.—The X evening newspaper, owned by a foundation, has one competitor, the Z morning newspaper. Z has been in operation for a number of years and has very substantial financial resources. X, however, appears to have made competitive efforts which neither Z nor other newspapers of com

¹⁸ Patman Report, 2d installment, *supra*, pp. 44-45.

¹⁹ The recommendation of Part II-E(2) of this report—that restrictions be imposed upon foundation lending practices—deals with problems fundamentally different from that of unfair competition, and would have limited effect in the area of the present inquiry. Foundation loans to affiliated businesses could frequently be brought within exceptions to that recommendation (as, for example, private placements of obligations secured by first mortgages), and if, in a particular situation, the proposed limitations appear troublesome, the foundation might well simply decide to furnish funds to its business by means of a capital contribution, rather than a loan.

²⁰ The requirement recommended in the preceding section of this report—that foundations make annual charitable disbursements at least equivalent to a prescribed percentage of the value of their assets—would not remove this advantage of foundation businesses. In many cases foundations will be able to comply with this requirement by making payments from contributions, income derived from nonbusiness assets, or proceeds arising from the liquidation of other holdings. Such foundations will have no greater reason to make demands upon their commercial subsidiaries for the distribution of business earnings.