

PSI memos

THE WHITE HOUSE

WASHINGTON

June 6, 1983

MEMORANDUM FOR JIM CICCONI

FROM: MICHAEL P. CASTINE, DEPUTY DIRECTOR  
PRIVATE SECTOR INITIATIVES

SUBJECT: RASBERRY WASHINGTON POST ARTICLE

"Better Tests or Better Scores?"

Regarding your inquisition on the attached article, I found that the Educational Testing Service (ETS) was not as supportive of "coaching" as the article states. The Service does not like to publicly admit that coaching does help because of the implications it has on the quality of the tests they administer. So I am not so certain this is something worth pursuing.

However, we have been encouraging corporations to "adopt" schools to help students early in the educational process. One of the more significant commitments has been by the Group W corporation. They are willing to adopt a school in each of their 6 major television markets. (Baltimore, Philadelphia, Charlotte, San Francisco, Pittsburgh and Boston).

In addition, they plan to encourage their 1500 cable affiliates and 15 radio stations to do the same in their respective cities across the country. Currently, we are trying to arrange for the President to "launch" one of the adopt-a-schools with the CEO of Group W. The corporation is willing to, then, simultaneously broadcast the President via satellite to all of its affiliates while they are holding similar ceremonies.

I will keep you up to date as more developments occur.

THE WHITE HOUSE  
WASHINGTON

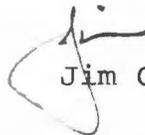
May 3, 1983

TO: MICHAEL CASTINE

The attached article appeared last month. Is there anything that we might properly do to help (that is, encouraging local support)?

It sounds like the type of private sector program that the President would be enthused about.

Thanks.

  
Jim Cicconi

William Raspberry

4/1/83  
Wash-Post

## Better Tests— Or Better Scores?

The NAACP, which just a few years ago was passing resolutions condemning standardized testing, is about to launch a series of pilot projects designed to improve black performance on standardized college entrance exams.

From the association's point of view, it isn't so much a matter of a changed philosophy as of pragmatism.

"You might say this is our response to the growing need among blacks to be admitted to institutions of higher learning at a time when 27 states have increased their admissions requirements," says Beverly Cole, director of the NAACP's education department.

"In addition, the requirements of the recent NCAA rules means that [student-athletes] need to be able to attain higher scores on examinations."

She said the project, whose planning predates the NCAA's controversial Proposition 48 by more than a year, is based on two findings: the old one, that blacks tend to score around 100 points lower than whites on the Scholastic Aptitude Test (SAT), and a more recent one, that blacks, when coached in test-taking techniques, tend to score 47 points above the white average.

So the NAACP, which still has its doubts about standardized testing, will coach. The project, designed by 10 black psychometricians with help from the Educational Testing Service, will begin shortly in New York and San Francisco. Depending on the availability of funding—some \$20,000 per center—the pilot project may eventually cover seven cities.

"It is an open secret that coaching helps," says Cole, whose doctorate is in sociology. "But of those currently getting the sort of coaching we have in mind, 85 percent are from families that earn in excess of \$30,000, a classification that does not include us. Most suburban and prep schools have this sort of program in place already. In light of this, we decided to launch a program for blacks and other disadvantaged students."

The pilot phase, which will involve some 500 students, is designed to test techniques. "We'll be looking at content as well as test-taking strategies—general test sophistication that should be helpful regardless of which standardized test one takes," Cole said.

"We still question the ability of a paper-and-pencil exam to predict college success," she said, "but the point is, we can get a lot of people to score a lot higher on these tests while we're still reviewing to see whether we've got a case for eliminating the tests or not."

The approach makes sense. My only criticism is that it doesn't begin early enough. Practice in the techniques of test-taking should start as early as the primary grades, with emphasis on understanding such standard test components as analogies, series, reading comprehension and logic.

I've heard the argument that it's a waste of time to teach the skills of taking tests that are inadequate and unfair measuring devices to begin with. But it occurs to me that it is impossible to teach children test-taking skills without also teaching them something of substance at the same time.

"The testing industry is powerful, and it is unlikely that it will be going out of business anytime soon," Cole said. "Meanwhile, a lot of our students are being screened out of higher ed."

And out of lower ed as well, which is why the NAACP's pragmatic new approach makes so much sense.

Could PSI  
help?

coaching for  
secondary school  
kids

NAACP  
- ETS - informal - back channel  
- relate adopt-a-school -  
- Matching Process -

RSHIPS



The President's  
Task Force on  
Private Sector  
Initiatives

# BUILDING PARTNERSHIPS

THE PRESIDENT'S TASK FORCE ON  
PRIVATE SECTOR INITIATIVES

DECEMBER 2, 1981 - DECEMBER 8, 1982

BUILDING  
PARTNERSHIPS



The President's  
Task Force on  
Private Sector  
Initiatives

December 8, 1982

The President  
The White House  
Washington, D.C. 20500

Dear Mr. President:

Your Task Force on Private Sector Initiatives completes its designated one-year assignment today. Its mandate is ending successfully as you intended: to report results as opposed to resulting only in a report.

At the very outset please let us thank you for giving, time and again, the power and prestige of your office to our work. Your personal commitment to voluntarism, to encouraging neighbor helping neighbor, has been an inspiration and source of strength to the Task Force.

Throughout the year, beginning with the luncheon you hosted on December 2, 1981 and to this closing luncheon today, you personally supported over 25 White House meetings where you urged leaders from all sections of our society to join with you in finding new ways to meet the needs of America. And we are grateful for your extra effort in visits to cities all over the country where you honored especially innovative and productive private initiatives.

A compilation of your "extra-efforts" support of the Task Force is included in the appendix.

The forty-four members of the Task Force -- a cross-section of political opinion and leadership from academia, business, organized labor, government, foundations, religious, civic and not-for-profit organizations -- devote themselves to being a catalyst to encourage existing organizations, individuals and communities to take leadership roles in finding new and innovative ways to meet the needs of society. All Task Force members made important contributions to this work. I am truly

grateful for their help and support and am particularly indebted to the committee chairs, who offered so much of their time and talent.

By the same token, the staff of the Task Force, organized initially by Dorothy Drummer and guided since March by Jerry Guth, did a remarkable job. Comprised as it was of people on loan from, or underwritten by, a variety of businesses and organizations, the staff "mirrored" the same sense of dedication as the appointed Task Force members.

Starting in November 1981 with 3 loaned staffers, and willing volunteers, and 2 telephones, our offices at 734 Jackson Place soon became a hub of activity and excitement.

To staff each of our committees, to house the data bank, to respond to the opportunities for increasing private initiative throughout the country, we expanded also to all 4 floors, 730 Jackson Place; fourteen telephone lines, 35 loaned or contributed staffers, 40 interns, who processed "Project Bank" forms for the data bank, and literally hundreds of volunteers, many of whom devoted as much as 60 hours per week.

It became the most exciting place to work in town.

With financial contributions from many organizations matched by donations of materials and supplies by many others -- and with Task Force quarters provided by the Department of Commerce -- the entire effort became a show-case example of public/private partnership.

We concerned ourselves with fulfilling the two principal functions outlined in the Executive Order which established the Task Force:

1. Promote private sector leadership and responsibility in meeting public needs.
2. Foster an increased level of public/private partnerships in order to decrease dependence on government.

We adopted five key missions in our role as catalyst:

1. To identify examples of successful or promising private initiatives and partnerships and to give these national recognition in order to promote their broader use.
2. To encourage increased and more effective use of human and financial contribution resources of religious groups, businesses, organized labor, foundations and philanthropic organizations, including more creative use of leadership, management expertise, training and volunteer work.

3. To encourage the formation and continuation of community partnerships -- private organizations working with local government -- to identify and prioritize community needs and then to marshal human and financial resources.
4. To identify government obstacles to private initiative and make recommendations for their removal, and to formulate incentives to inspire and incite the private sector to undertake new initiatives.
5. To contribute to the development of public policy in areas of concern to the Task Force.

In all five areas, we found that success depends on volunteers and the spirit of voluntarism so essential to the strength and progress of our nation.

To carry out the mission of the Task Force we divided work among eleven action committees. All Task Force members were assigned to committees and each acted as an autonomous group in fulfilling its mission. Their respective findings are delineated in committee reports which outline mission and detail results achieved, and are attached to this letter.

The Task Force membership did not seek a consensus statement on such matters as the impact of changes in federal spending patterns, or the proper role of government and of the private sector in meeting the needs of society, or the appropriate role of government and the private sector in support of not-for-profit organizations. This was not our mission.

Neither did Task Force membership, as a body, seek concurrence on each and all reports, or undertake to analyze policy implications for the range of findings and observations offered. One exception is the report of the Contributions Strategies Committee, whose recommendations on goals for both cash and in-kind giving by individuals, corporations and foundations was approved by the full Task Force.

Where we did find consensus was on the importance of reinforcing the volunteer spirit and building partnerships, both important traditions in American history, and both never more needed than today.

We successfully fulfilled our first mission by establishing a computerized project bank. As of December 1, it contained 2,500 examples of how organizations, individuals and communities have met their needs. It has been very helpful to those organizations and communities seeking solutions.

I believe that the project bank should be continued and have formed an ad hoc group of Task Force members to help

determine where best to place it. We have received specific, thoughtful proposals from three private sector organizations indicating their desire to continue, maintain, and expand the data bank.

Because of the great interest in the subject of private initiative and community partnerships, many institutions have issued comprehensive studies in the past year, such as the Committee for Economic Development and SRI International. The Task Force commends particularly the report by the American Enterprise Institute, Meeting Human Needs: Towards a New Public Philosophy, which was commissioned by you in June 1981. It is an outstanding work and has been extensively used by the Task Force.

In addition to promulgating strategies for giving, and to joining with Independent Sector in funding an Advertising Council campaign on voluntarism, we stimulated the formation of State Task Forces by 42 Governors, encouraged several hundred national organizations (religious, civic, trade and professional, organized labor, academic, business, not-for-profit) to add private sector initiative to their work agenda, and identified impediments which deter private initiative action, and incentives which might be used to encourage job creation and job training.

The Marshalling Human Resources Committee, assisted by leaders from twenty-one national volunteer organizations, has published Volunteers: A Valuable Resource, Prepared for Policy Makers. Also, it brought fifty youth volunteers from more than thirty communities to Washington, D.C. to meet with you personally. Your inspiration resulted in their returning home committed to new collaborative youth volunteer initiatives in 1983.

The Community Partnerships Committee has published "How-To Guides" to stimulate development of community partnerships, and is publishing an outstanding book entitled, "Investing in America." Their efforts focused particularly on the need to cut across the lines between public and private, between for-profit and not-for-profit institutions. Outstanding examples of these are contained in the Journal of Community Action autumn issue, which is devoted exclusively to partnerships. It was published jointly by the Task Force and the Center for Responsive Governance. There are literally thousands of public/private partnerships now in existence or being formed throughout the country.

The Committee on Government Liaison has worked closely with all major departments and agencies, first to determine private sector initiative activity, and second, to encourage greater sensitivity in all policy making matters to private initiative and public/private partnership potential.

Mr. President, we have found new commitment by both private and public sector leadership to work in partnership. There is an exciting opportunity for this initiative, creativity, and commitment to be joined with local government in finding new ways to meet needs.

Nowhere was this better illustrated than in the work of the Communications Committee, which developed scores of these stories for print and broadcast media.

More than 70 television stations stressed these themes in both news and feature programming.

The videotape which you, Mr. President, made specifically for the Task Force, was used widely on television and in our speaking appearances across the country.

Hundreds of newspapers featured the "Brighter Side of Today's News" human interest stories, and these continue to be run in scores of association and company magazines.

Pat Boone's musical theme, "Lend a Hand, America," and the feature stories which he recorded, have been distributed to some 5,000 radio stations.

As the Task Force phases out its activities, I recommend:

1. That the Task Force Executive Order be permitted to expire on December 31, 1982.
2. That you continue to articulate the need for increased private sector initiative in every aspect of our nation's life and that you continue to urge all community leaders to join in local partnership as a most effective way to meet the needs of the community.
3. That there be created an inter-agency committee chaired by a cabinet officer. This group would:
  - a. Encourage increased sensitivity in policy-making to impacts on initiative, voluntarism, and private sector involvement.
  - b. Encourage cabinet initiatives which increase agency reliance on the private sector and public/private partnerships, in program development and implementation.
4. That the White House Office of Private Sector Initiatives be strengthened and that the Special Assistant to the President for Private Sector Initiatives be the focal point for federal government initiatives in this area.

5. That you create a Bi-Partisan Advisory Council on Private Sector Initiatives, comprised of no more than 15 distinguished individuals. This new Council should meet regularly with you to review private sector initiative goals and objectives for your Administration.

The Task Force is grateful for your inspiration and support. We especially thank Mike Deaver, Jim Rosebush, Jay Moorhead and Michael Castine for their support.

We conclude our work, Mr. President, where we began, with the preamble of our mission statement: "The greatness of America lies in the ingenuity of our people, the strength of our institutions, and our willingness to work together to meet the nation's needs."

Sincerely,



C. William Verity, Jr.  
Chairman



TABLE OF CONTENTS

	Page
I. List of Task Force Members . . . . .	9
II. Models Committee . . . . .	13
III. Impediments Committee . . . . .	17
IV. Governors Committee . . . . .	29
V. Liaison with National Organizations Committee . .	33
VI. Liaison with Government Offices Committee . . . .	37
VII. Incentives Committee . . . . .	43
VIII. Contributions Strategies Committee . . . . .	47
IX. Marshalling Human Resources Committee . . . . .	53
X. Communications Committee . . . . .	57
XI. Awards and Recognition Committee . . . . .	60
XII. Community Partnerships Committee . . . . .	61
XIII. Appendix Information . . . . .	65



The President's Task Force on Private Sector Initiatives

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William S. White  
President  
C. S. Mott Foundation

Jeri J. Winger  
President-elect  
General Federation of Women's  
Clubs

Thomas H. Wyman  
President  
CBS, Inc.



### MODELS COMMITTEE

Chaired by: William J. Baroody, Jr.

Members: Senator Dave Durenberger  
Max M. Fisher  
John W. Gardner  
The Reverend E. V. Hill  
Henry Lucas, Jr.  
James W. Rouse

### MISSION STATEMENT

To identify, describe, and analyze exemplary models of private sector initiatives, to determine their distinctive characteristics, and to develop appropriate case studies.

### STRATEGY

1. To identify exemplary models in specified categories, and to seek such examples from other Task Force committees.
2. Utilize the resources of existing institutions and structures rather than establishing parallel or redundant systems, and rely on existing institutions to authenticate models.
3. Encourage existing institutions to develop their own internal system of identifying and disseminating examples of exemplary models in their own sectors.
4. Cooperate with government agencies, departments, and institutions in establishing a system of model identification.

5. Prepare a draft report enumerating exemplary models, in a format and style suitable for publication by the Task Force as a brochure for widespread distribution.

### ACTION

The committee inquiries revealed that no precise "models" of private sector initiatives exist as described in the original mission statement. Rather, there are countless individual success stories, but each is unique to its own setting. No single model can be borrowed, in toto, from one community and adopted in another. Any single example or illustration must be retailored for its new setting.

There are, however, tactics and strategies for change which can be usefully studied, which transcend community differences.

Instead of consensus about models or issues, then, the committee commends processes, tactics, and strategies for change tailored to the special needs of each community. Several recent major studies make this point. The Committee for Economic Development (CED) has brought its work on partnerships to a conclusion by releasing the case studies volume in mid-September, following the release of the CED policy statement last spring. As well, SRI International has completed important work in this field. The American Enterprise Institute released a comprehensive book, Meeting Human Needs: Toward a New Public Philosophy. Other productions include the KAKE-TV series on private sector responses to human problems, and Independent Sector's 28-minute movie.

Also, the Incentives Committee has produced a first-rate slide show which will be of great interest to a wide variety of audiences; the project bank has been a useful source of information for interested parties; and the Task Force book, Investing in America, promises to be a helpful tool.

### FINDINGS

1. The committee agrees that the Task Force will have finished its work by December and should then expire. It also believes that the momentum established in this past year should be maintained.

The President should be encouraged to institutionalize this initiative in a small but important way. He might consider establishing a standing Cabinet-level committee run by the Vice President, or he might think of appointing a small group of advisors from the private sector to meet with him on a regular basis.

In any case, the best judge of an effective way to continue this work is the President himself. This is to relay to

him the committee's enthusiasm for continuing it in some form.

2. A remaining outstanding question is that of a "home" for the project bank. Proposals have been received from several organizations and are under consideration.

#### CONCLUSION

The members of the Models Committee are pleased with the progress made this year. Public awareness has been greatly increased; scholarship in this important area has expanded; media coverage has enlarged and promises to continue; and the White House should continue to be a focus and leader in marshalling private sector resources and energy in our quest to improve the quality of American life.



IMPEDIMENTS COMMITTEE

Chaired by: Representative Barber B. Conable, Jr.

Members: Kenneth N. Dayton  
The Reverend E. V. Hill  
Michael S. Joyce

MISSION STATEMENT

To identify impediments which prevent or retard the maximum use of private sector initiatives in the United States.

INTRODUCTION

The Committee recognizes that it is often impossible to draw a clear distinction between impediments and incentives. This report's focus is on the identification of areas of public policy where changes could be made that would release or encourage greater private sector initiative than already exists. Throughout the report, the concept of "impediment" will be used in a broad sense.

We contacted many of those who have been actively involved in a variety of private sector activities -- tax-exempt organizations, private foundations, corporations and banks, churches, government officials, volunteer groups, public policy analysts and scholars. This report is based largely on the impediments they brought to our attention and their suggestions for removing barriers to voluntarism, public/private partnerships, charitable endeavors and other forms of private sector initiative. In a few instances, a remedy may be straightforward and self-evident. In many, where it is not, we do not try to suggest specific policy changes. We hope, however, that others both within the Administration and without will study the identified areas and make concrete proposals for change encouraging private sector initiative.

It was brought to the attention of the Committee that many serious impediments to private sector initiative are not the result of laws or regulations but, rather, involve attitudes and motivations on the part of individuals and organizations. Many of these "attitudinal" impediments involve basic questions of the respective roles of government, nonprofit entities, and for-profit activities. Often, mutual distrust or concern over the flow of funding from one to the other prevents a full exploration of possibilities and options for new divisions of responsibilities. Little attention is given, for example, to seeking private sector alternatives for accomplishing the purposes addressed by government programs.

Dealing with these impediments based on attitude, motivation, and tradition requires fundamental shifts in economic activity and human behavior. The Committee, while acknowledging that these impediments exist, chose to focus its attention on impediments which could be resolved through specific legal or regulatory changes.

#### I. Definition of impediments and incentives:

A law or regulation need not totally stifle private initiative in order to impede it. An impediment can be viewed as a behavior, rule, regulation, or law which increases the costs, reduces the potential benefits, increases the risk or precludes a specific strategy of private sector initiative. Of course, it is possible for an impediment to prevent private sector initiative altogether -- as appears to be the case with the law which currently prohibits volunteers from serving in federal agencies unless an exception has been specifically legislated. Conversely, a behavior, rule, regulation, or law which permits, encourages, increases the potential benefits, or reduces the cost or risk of a private sector initiative is considered to be an incentive.

Impediments and incentives at the federal level receive most of the attention in this report; they are most readily identified and impact activity on a nationwide basis. A few specific impediments have been identified at state and local levels. There are, undoubtedly, many more which parallel federal impediments, as well as some which are unique to the laws and regulations of individual states. The Committee has communicated with the state level private-sector initiative task forces to urge them to replicate this examination of impediments and incentives.

In summary, the Committee's focus has been on the identification of substantive legal or regulatory impediments at the federal level. No attempt is made to recommend action on specific impediments.

## II. Private sector initiatives face no overwhelming, major impediments:

The United States has enjoyed a lengthy, rich and diverse tradition of private initiative, voluntary association and creative cooperation among its citizens to solve mutual problems and meet common needs. This enduring tradition is evidence that no insuperable barriers or legal impediments exist which preclude a continuation of this type of activity.

Generally, where there is motivation and strong determination that a particular private sector initiative be undertaken, those involved have usually found a way to succeed.

Failures of specific initiatives do occur -- for lack of proper or sufficient motivation, insufficient resources, lack of community support or perceived need -- but the Committee believes that the climate in the United States today continues to encourage and favor private initiatives, voluntarism and non-governmental approaches to problem solving.

Therefore, the impediments discussed in this report, while burdensome to specific projects, do not constitute insurmountable barriers that preclude private sector initiative in general.

## III. Prevent creation of new impediments:

Before addressing existing impediments, the Committee wishes to stress the importance of not creating new impediments inadvertently as programs and policies are developed by government.

It is therefore suggested that: Policymakers at every level of government should review and study the possible consequences on private sector initiatives of proposed policy initiatives prior to their implementation.

Many policy changes are motivated by factors which have little or nothing to do with fostering private sector initiatives. However, while keeping these principal aims or motivations in mind, it is still possible to assess whether a particular proposal would help or hinder private sector initiative compared with one or more alternative approaches, and to consider ways that basic policy thrusts could be modified to create a climate favorable to private sector initiative.

Examples of broad public policies currently being debated which have potential impediments for private sector initiative are:

- Flat or consumption-based income tax: while recognizing that broad changes in the tax structure must be judged by many other standards, what would be the impact on charitable contributions and could these

methods of taxation be adjusted so that they would not decrease such contributions?

- New Federalism: what impact would reallocating government responsibility for meeting human needs have on nonprofit groups involved in helping the needy?
- Repair of infrastructure: what would be the impact of decisions relating to the repair, relocation or closing of roads, bridges, schools, public housing on the sense of community and neighborhood identification and solidarity which propel many private sector initiatives?
- Minimum wage: what would be the impact on state or federal decisions to increase minimum wages on the employment of youth, trainees and others who private sector initiatives often try to help?

The Committee is NOT recommending that a formal study or exhaustive impact analysis be launched every time a new policy is considered. However, it suggests that just as policymakers attempt to assess the impact of proposed changes on the economy, the environment and on families, some thought be given to what the potential impacts on private sector initiatives might be and how any possibly negative impacts could be avoided.

One example of this occurred during the consideration of The Economic Recovery Tax Act of 1981. It was realized that the full operation of the new rules for depreciation of capital assets would mean that some corporations would show reduced taxable income on their ledger books. If the limit on deductibility of corporate charitable contributions had been left at five percent, this would have meant that at least a few corporations with aggressive philanthropic programs would have to have reduced their contributions in order to stay within the allowable limit. Therefore, the limit was doubled to 10 percent -- not because anyone expected corporate contributions to double, but merely to prevent other changes in the law from having an unintended, negative impact on existing patterns of charitable giving.

It should be noted that another of the major changes in this same legislation, reduction in individual income tax marginal rates, increased the cost of individuals' charitable contributions and, therefore, has probably reduced their rates of giving. In this case, although this effect was perceived while the bill was under consideration, the main thrust of the tax-cutting legislation was felt to be of primary importance, despite its probable impact on contributions.

#### IV. The Crucial Role of a Strong Economy:

The Committee wishes to emphasize that a strong economy constitutes the greatest incentive to private sector initiative. None of the specific impediments identified below begins to match the negative effects of a weak economic climate on stifling private sector initiative, be it charitable contributions, the development of public/private partnerships, the creation of the jobs and income that reduce the need for philanthropy or the development of creative alternatives for meeting needs in the private sector.

#### VI. Specific Impediments and Incentives:

A great many individuals and organizations identified for the Committee specific impediments and needed incentives which they have encountered in trying to foster private sector initiatives. These impediments and incentives are listed below as they affect several areas of private sector initiative: contributions by individuals, volunteering, tax-exempt organizations, private foundations, and for-profit corporations. This abbreviated version of the Committee's report contains only an inventory of major items brought to its attention. A longer version of the report and an appendix contain further details and are available as separate documents. However, in no instance does the Committee make action recommendations concerning specific impediments or incentives.

No member of the Impediments Committee necessarily agrees that every item discussed below should be part of an agenda for future action. The listing is based on responses from people actively involved in fostering private sector initiatives and, as such, reflects their experience and opinions as to barriers they have encountered in pursuing specific projects and programs.

The Committee stresses that it is not necessarily advocating a specific legislative or regulatory response to these impediments and incentives. Instead, it urges that these areas be reexamined to determine whether the original rationale behind the existence of these impediments outweighs the problems they create for private sector initiatives.

##### A. Contribution of funds by individuals

1. Make the above-the-line income tax deduction permanent for charitable contributions. Government and interested groups should continue to make taxpayers aware of this new deduction for people who do not itemize their other deductions.
2. State income taxes should lower the cost of giving by recognizing charitable contributions by taxpayers who

- do not itemize deductions. Such a change was recently enacted in California.
3. Increase the limitations on the percent of income which can be claimed as a charitable deduction.
  4. Consider policies which would permit individuals to make charitable contributions of Series E savings bonds, IRA's and Keough accounts, such as removal of the penalty for liquidating IRA funds before age 59-1/2.
  5. Bargain sale provisions. Under pre-1970 tax law, a taxpayer might have an improved case position as a result of contributing appreciated mortgaged property to a charitable organization. Under current law, it is no longer advantageous to do so. This impediment might be alleviated by revising the law to tax only 25 percent of the cost of such a donation.
  6. Contribution of artistic works. Tax treatment of gifts made by artists of their own works discourages such gifts to museums, galleries and educational institutions in the United States where they would be accessible to the public.
  7. Charitable trusts. Several tax impediments to the creation of charitable trusts have been identified. These include the uncertainty as to the right to reform defective trusts under certain circumstances, the 20 percent limitation on the percentage of adjusted gross income which can be deducted for the creation of a trust, and the lack of a carryforward provision.

#### B. Volunteers

1. Federal law currently prohibits federal agencies from permitting volunteers to contribute their services, unless a statute has been enacted specifically exempting the agency from this provision. Those agencies which have been permitted to use volunteers, the SBA, Forest Service, and Savings Bond program, for example, have found that volunteers contribute importantly to accomplishing agency functions. Consideration should be given to lifting this blanket government-wide prohibition on volunteer services.
2. Members of civic and charitable associations are not permitted to place unstamped mail in residential mail boxes. Permitting such a practice might help these organizations mitigate the impact of high postage rates.

3. Accounting methods used by the Federal Government in calculation of amounts to be reimbursed under grants or contracts have the effect of penalizing organizations for the heavy use of volunteers.

### C. Tax-exempt organizations

#### 1. Nonprofit organizations

##### Qualifying for tax-exempt status:

- a. An organization involved in channeling funds to low income, deteriorating communities has found that it might be in violation of the requirements for tax-exempt status because it assisted for-profit businesses which provided a mainstay for revitalization efforts, and because it assisted housing which included an economic mix of residents. Rulings in this area appear to be contradictory, and it is believed that clarification of permissible activities might spur innovative revitalization efforts.
- b. Nonprofit organizations caring for infants and school age children during out-of-school hours have experienced extraordinary difficulty in qualifying for tax-exempt status because they could not show they were organized and operated exclusively for educational purposes, as required. It has been suggested that the provision of these types of services would be facilitated if the definition of tax-exempt organizations were expanded to include work-related dependent care.
- c. The rules governing whether an organization qualifies as a public charity require that at least one-third of its annual contributions come from broadly based public contributions, fees, admissions and so forth. This requirement jeopardizes the organization's status if it accepts large contributions, the income from which would reduce its public contributions to less than one-third. This in turn discourages efficient means of husbanding and distributing funds for charitable purposes.

##### Providing services:

- a. State and local zoning laws, health, fire and safety regulations pertaining to neighborhood- and home-based daycare for children, handicapped and elderly individuals are often based on requirements intended for residential institutions and

large schools. The expense of complying with these requirements prevents some care facilities from operating even though the safety and well-being of those in care is well protected and leads others to operate outside the regulatory structure.

- b. Grants by charitable organizations to needy individuals who receive Supplemental Security Income (SSI) payments from the federal government are counted against the benefits received by those individuals. An unintended consequence of this rule is that charitable organizations quickly learn not to extend assistance to SSI recipients, even though the needs of these people are often in excess of the support provided under the government program.

#### Financing:

- a. Late payments of federal funds (by federal agencies or by state agencies on a "pass-through" or block-grant basis) sometimes force nonprofit grantee agencies to borrow, at high rates of interest, to cover cash-flow requirements until the federal payment arrives. However, these interest costs are not reimbursed by the government and must be absorbed by the grantee agency. This reduces the funds available for their charitable purposes and makes it difficult for them to plan for and allocate their funds on a reasonable basis.
- b. Postage rate increases for nonprofit third-class mail has reduced the ability of many charitable organizations to generate income and carry out their functions.
- c. State and local regulations regarding charitable solicitation within state boundaries were enacted to safeguard against fraud and deception. Unfortunately, these well-intended laws have made it difficult for reputable national organizations to comply with the patchwork of different requirements in each state.
- d. Charitable tax-exempt organizations are taxed on income from debt-financed properties (mortgaged real estate) held in their portfolios. This deters them from purchasing real estate as an investment or from holding such property received as a gift, even though the return on such property might be more attractive than that of other investments.

## 2. Foundations

- a. The 2 percent excise tax on private foundations generates revenue far in excess of amounts spent by the IRS to monitor tax-exempt organizations and diverts funds away from charitable purposes.
- b. Community foundations are required to obtain at least 10 percent of their support from public contributions in order to maintain public charity status. This, in effect, penalizes community foundations for their earlier success in attracting contributions. As the value of the foundation's endowment and that of endowment income increases, it becomes more and more difficult to attract sufficient annual contributions to meet the 10 percent test.
- c. It has been alleged that a major factor in reducing the "birthrate" of new foundations, and discouraging the flow of additional funds into the foundation field is the prohibition under current law of excess business holdings. In summary, these rules provide that a private foundation cannot hold more than 20 percent of a corporation's voting stock, less the percentage owned by all disqualified persons. Should a foundation acquire excess business holdings as a result of the receipt of a gift, bequest or corporate merger, the foundation must dispose of such holdings within five years or incur severe penalties. This places such a foundation at a substantial disadvantage in negotiating with prospective purchasers who may prolong negotiations in the hope of obtaining a lower price as the deadline pressures on the foundation increase. Faced with the prospect of a forced sale, many potential donors simply decide against making a gift of closely held stock to a foundation.
- d. Private foundations are not allowed to rely on IRS rulings as to a grantee's public charity status. This forces the foundations to expend their resources in order to make these determinations on their own, thus resulting in less funds available for charitable purposes.
- e. Donors to private foundations may not deduct the fair market value of contributions of appreciated property without adjustment for capital gains tax unless the foundation distributes 100 percent of all their contributions to qualified charities within 2-1/2 months after the end of the taxable

year of the donations. This means a foundation must be certain of selling all the properties it receives in order to fund its distributions within the same year. These requirements are too rigid in the case of real properties subject to market uncertainties to permit a substantial contributor to fully fund its foundation with appreciated properties and, therefore, may reduce the amount contributed.

- f. The penalties and sanctions on both public charities and private foundations for relatively minor infractions need to be reviewed. In the case of private foundations, a multi-level set of penalty taxes have sometimes created problems for smaller foundations which lack the resources to retain adequate legal counsel. Public charities' violations are sanctioned by the loss of their tax-exempt status altogether; a punishment which may be too harsh to match minor violations.
- g. Presently, only one of four eligible candidates for corporate-related foundation scholarship programs may receive an award. This "25 percent test" was devised by Congress to prevent corporations from funneling compensation to their employees through educational scholarships to their children. These limits restrict the freedom of company foundations to engage in a charitable activity of broad benefit to the community.
- h. The law and regulations pertaining to private foundations impose severe restrictions on the relationships that may exist between a foundation and its "disqualified persons." Violations of these restrictions trigger substantial penalty taxes. Some foundations have literally hundreds of disqualified persons and must spend considerable administrative funds to track their investments and corporate and business involvements in order to avoid transactions prohibited between the foundation and disqualified persons. This rule can impose a substantial administrative burden on private foundations, the magnitude of which increases geometrically with each passing generation.

#### D. The For-Profit Sector

- 1. Private pension funds: The prudence standard, the "solely in interest" test, and the "exclusive purpose" rule under ERISA are not in and of themselves deter-

rents to socially sensitive pension fund investment. These rules appear to allow the fiduciary flexibility to consider such investments within the pension plan philosophy that the participants' assets are set aside for investment for their future benefit, which itself satisfies a social purpose. To advocate liberalization of such provisions would undermine the basic tenets of pension plan regulation.

2. The enterprise zone concept should be considered as one means of responding to the plight of distressed urban and rural areas. Phased implementation of the concept on an experimental and limited basis would permit development of the information and experience needed for full-fledged implementation.



### GOVERNORS COMMITTEE

Chaired by: Pierre S. du Pont

Members: Luis A. Ferre  
Robert D. Lilley  
Robert Mosbacher, Jr.  
George W. Romney  
Alexander B. Trowbridge  
Thomas H. Wyman

### MISSION STATEMENT

The mission of the committee was to enlist the Governors of each state and American territory to take the leadership in encouraging greater involvement by private citizens and institutions in the solution of public problems.

### STRATEGY

The committee sought to encourage establishment of private sector initiative task forces at state or territorial level. While each state task force would set its own priorities and activities, the committee suggested that the state task forces promote the formation of community partnerships; seek to eliminate impediments; create incentives, and initiate an awards program.

### ACTIONS

In mid-February at a meeting with the National Governors Association in the White House, President Reagan and Task Force Chairman Verity asked the Governors to lend support to the private sector initiative concept and the mission of the Task Force.

On March 3, President Reagan wrote all Governors asking them to form private sector initiative task forces in their jurisdictions. He requested five specific actions:

1. That the statewide task forces be composed of 30-50 individuals of which two-thirds should be drawn from the private sector.
2. That the Governors serve as co-chairmen of the task forces and be engaged actively in their formation.
3. That the Governors, as appropriate, consider formation of regional or municipal task forces.
4. That the Governors work with the national Task Force on Private Sector Initiatives in applying successful examples of private sector initiatives to community problems.
5. That the Governors adopt the following objectives for their statewide task forces:
  - Promoting the formation of community partnerships;
  - Identifying governmental impediments and recommending incentives;
  - Creating a program to recognize outstanding examples of private sector actions and focusing attention on those models which could be replicated.

On March 24, Governor du Pont wrote the Governors, stressing:

1. The Private Sector should not only include the business community but also voluntary organizations, civic and religious groups, organized labor, educational and philanthropic institutions, and service clubs.
2. The President's bi-partisan Task Force had been commissioned to enlist the active involvement of these private sector groups by working throughout the nation to establish community partnerships.
3. Governors, as "first citizens," are in a unique position to help focus public attention on privately sponsored efforts.
4. That statewide task forces be convened -- designed to recognize existing private sector initiatives as well as to encourage the formation of new ones.

Governor du Pont attached a memorandum from the President's Task Force suggesting a possible model and guidelines. It addressed five main concerns: Rationale for a Governor's Task Force; How to Create a Governor's Task Force; Suggested

Function of a Task Force; Issues for Consideration; and Possible Committee Structures.

From that point on:

1. The Chairman of the Task Force met with or called individual Governors.
2. The Executive Director and staff spoke at appropriate conferences around the country and in the territories, and the Task Force staff worked with appropriate contact points throughout the nation and territories to stimulate interest and act as a catalyst in this effort.

On August 23, the Task Force staff met with Governors' aides in Washington to discuss examples of existing organizations or organizational problems.

Each state representative was given a comprehensive binder of materials illustrating specific examples of what other states had done in the private sector initiatives area. Contact persons in Governors' offices and in national organizations were included in the packet, as well as a chart giving the status of the activity within each state.

#### THE RESULT

Forty-two Governors have either formed or are in the process of forming statewide task forces or private sector mechanisms within their respective states.

#### CONCLUSIONS

1. That a concentrated effort should be continued to encourage the remaining Governors to establish task forces.
2. Governors should be encouraged to sponsor seminars aimed at the development of community partnerships and the promotion of voluntarism.
3. Regional Governors' Associations should consider setting up regional task forces as links among the state task forces.
4. Each Governor should be encouraged to include youth representatives among appointees, with full participation.