



## Philanthropy in a Favorable Climate

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*"My concern is whether philanthropy may be straying too far from its humanistic and altruistic origins. The trend toward more professionalized philanthropy has in most respects been a good thing, but not when it stiffens into bureaucracy and loses the spontaneity and compassion of the one-to-one."*

Your immediate response to the title of this talk has to be "You must be kidding!" And your disbelief would have some very substantial bases. Government and the public sector these days are getting out of the business you're in, namely social amelioration. This week's election results give you little hope the double burden you're now carrying will again be shared.

And you're undoubtedly drowning in applications, now that you're becoming the remaining source. Applications to foundations are now running 33 percent or more above past averages. You'll be saying "No" to most of them—an unpleasant circumstance—and what do I mean, "a favorable climate?"

Add to that the frustration you feel in tackling the world's contemporary problems and all their baffling complexities with the minimal resources you have at your command. Who, even a half a century ago, would have believed that it would be up to the average citizen and local philanthropies to comprehend and cope with global futures? And this, Mr. Speaker, is a favorable climate?

To add to the bleakness, there's the deficit and the specter of continuous scarcity and possibly renewed inflation. We know what

the inflation of the 1970s did to us—reducing our resources precisely at the time social needs accumulated and public contributions diminished.

So where does the optimism of my title come from?

Partly, I must admit, to offset the melancholy that comes with my being a Norwegian. I don't know what it is about the northern climes that makes Scots dour and Scandinavians melancholy. But I know it accounted for what was the worst speech I ever gave: to an audience of octogenarians years ago in Pennsylvania. Without thinking, I chose the topic "Life in the Year 2000." Afterwards, my wife told me it was the worst speech I had ever given—a judgment already evident from the audience's deadly silence. But my daughter, ever kind, comforted me by adding, "But, Dad, you made the year 2000 sound so awfully gloomy, they must have been happy they wouldn't be around."

I'm also mindful of the fact that pessimism is out and optimism is in. America's new pride of nation, the celebration of the Olympic victory, President Reagan's drumbeat of an ever-improving future, all have conspired to make this presentation upbeat.

But there's far better reason for the mood of my title. All things being relative, it's fair to ask, "Favorable compared to what?" And the answer for me rings clear: philanthropy's standing in America has improved considerably.

To gain perspective, let's take a quick look at American philanthropy through two previous fifteen-year periods. First, the period 1954 to 1969. In many respects, that seemed the heyday of foundations. Their number was burgeoning, horizons seemed unlimited, affluent governments seemed ready to pick up and universalize innovative projects [that] philanthropy set in motion. But to some it all seemed quixotic and sometimes ridiculous. Remember the famous *New Yorker* cartoon, showing a young man throwing dollars out the window, with a startled trustee coming upon him and calling out, "That's not the way we do it in the Ford Foundation, young man!"

The sudden affluence of that period was symbolized by the Ford Foundation. Planned in 1950 for an annual grant level of \$20 million, it found itself by 1955 with an unspent accumulation of over half a billion dollars, and with a hostile Congress ready to penalize such

accumulation. Those were some tense times in that foundation: trustees pressed hard on officers and staff to “unload” in some way that would both do good and do well by Congress and public opinion. The result was a massive and speedy set of grants, roughly half of the accumulation going to increase faculty salaries in private colleges, most of the other half going in surprise packages to delighted hospitals throughout the country—more to the point, in every Congressman’s district. I can never forget the executive director of the American Hospital Association emerging from the Ford Foundation trustees’ meeting, reaching in incredulous bliss for the telephone to inform his home office of the action—but also to complain that because of the raging snowstorm he was having trouble getting a train home. Over his shoulder came the soothing voice of the bemused trustees: “There, there, we’ll buy you one.”

The heyday of philanthropy? True, a nation that had long honored philanthropy without really knowing much about it, became newly excited about foundations, and foundations basked and became more ambitious. Seemingly, their entrepreneurial role had gained public acceptance. But had it, and to the degree it had, was that acceptance earned? Or bought?

Whatever, it was certainly paid for when the year 1969 rolled around. A volcanic explosion of distrust and resentment broke through the thin crust of acceptance and spilled its searing lava over the whole of philanthropy. The explosion had been building and partially venting throughout the period 1954 to 1969: first, a conservative Republican anger directed at the eastern Establishment that had nominated Eisenhower over Taft, an Establishment well represented in the board and staff of the Ford Foundation. Then Cox and Reece and McCarthy<sup>1</sup> and, throughout the years, [Congressman] Wright Patman with his smoldering dislike of the eastern moneyed. Patman’s ire infected the hearings of the Ways and Means Committee,

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<sup>1</sup> The Cox Committee of 1952 and the Reece Committee of 1953 investigated possible communist activities among foundations, although their mandates were originally to study interlocking control of foundations and foundation funds by certain families, corporations, and groups. This shift of focus was part of the national obsession with communism that was both fed and exploited by the “witch-hunting” activities of Wisconsin senator Joseph R. McCarthy.

and the result, as we all know and have lived with, was the punitive Tax Reform Act of 1969.

The fifteen years since 1969 brought us to the Congressional hearing of 1984. Their benign mood and the friendly Tax Act of 1984 are the measure of the difference in today's philanthropic circumstance and of the distance we have traveled. Congress and the public can now be said with confidence to have accepted philanthropy and the need to have it move assertively on the American scene.

Question is, have we now really earned that acceptance? In many ways, I would argue that we have.

First of all, we have reformed. Not entirely, and certainly not completely on our own. It took the Congress and [the] Tax Reform Act to point out how far we could stray from the ideals and standards of true philanthropy, and now we ought to change some of our behaviors. We were also prodded by the clientele we serve. The so-called Donee Group,<sup>2</sup> evolving into the National Committee for Responsive Philanthropy, documented a number of our shortcomings, and still remains as sort of a Jiminy Cricket chirping at our conscience.

But not all our reforms have come under pressure from the outside. Meetings like this show the force of improvement from within, and generally, the establishment and performance of the regional associations of grantmakers are symbolic of that instinct to self-reform. The Council on Foundations, haltingly at first and now aggressively and consistently, is ratcheting up the standards of philanthropic performance; its "Principles and Practices" are the measure of how far we have come.

We have also become more self-aware, and in that awareness have more clearly and self-confidently defined our place in society. The Filer Commission was symbolic. Created as an effort to avert "another 1969"—another assault on a philanthropy ill-prepared to explain or defend itself—the Filer Commission massively researched and then illuminated the role of foundations in American society. But it did more than that. It linked the donors with the donees in what was then strategically labeled the third, or independent, sector.

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<sup>2</sup> See p. 283.

This newly named sector, symbolic of voluntarism and private initiative, took on meaning and strength hitherto neither articulated nor constitutionally recognized. In any future controversy, foundations would not stand alone; they would be an inseparable part of one of democracy's vital mechanisms and preserves.

Since 1969, we have also grown and diversified. Sadly, the birth rate of private foundations has fallen off (though some massive ones have been newly created: e.g., MacArthur, Getty, and soon Hughes.) But that decline has been offset by the accelerating growth of corporate, community, and public foundations. The last two categories of foundations, interestingly enough, represent a democratizing trend in philanthropy: community foundations being governed by at least a presumptively broader representation of social interests, and public foundations (technically not foundations but 501(c)(3) public charities) experimenting with new forms of governance and appealing to the market for the funds they then make available as grants. One could reasonably argue that in the growth of these two types of grantmaking institutions there is visible a trend toward philanthropy that is less elitist, closer to the market, more consistent with the democratic nature of our society. (Again, one has to recognize the influence of the Tax Reform Act of 1969, which in its distaste for elitist philanthropy created incentives for the establishment of both community and public foundations.)

Since 1969, foundations have also become more sophisticated and versatile. They have always given money; now they are explicitly and self-consciously doing far more than that. One could easily cite a dozen or more roles they play: technical assistants, program-related investors, lenders; insurers, conveners, gadflies, evaluators, incubators, partners, Good Housekeeping Seals of Approval.

As their activities have diversified, so have their social philosophies. Foundations in the past have been castigated simultaneously as being too liberal and too conservative—proof in itself that there have always been differences enough to make generalizations difficult. Recently, with the general American drift toward the right, conservatives have been much more aggressive in the use of foundations, in their own words trying to counterbalance a predominantly liberal tilt in philanthropy. To the extent this represents greater diversity among foundations, the trend is a healthy one. But

to the extent it politicizes and polarizes philanthropy, it is a disturbing development.

Leadership in philanthropy is also diversifying and diffusing. We were vulnerable in 1969 partly because leadership had been concentrated in the "name" heads of the very big foundations; they became our spokespeople and the visible targets of hostile critics. There was not much contact either among these dominating figures nor with the world of the smaller foundations—a lack of alliance that made philanthropy all the more vulnerable. I can recall the efforts of Homer Wadsworth<sup>3</sup> and others to forge more of a linkage during the 1950s and 1960s; but their voices were not heard or listened to at the top. Since 1969, the situation has changed. Regional associations of grantmakers have sprung up around the country; the Council on Foundations and Independent Sector have become forceful instruments of cohesion, and a welcome flow of philanthropic leadership and energy has been bubbling up in all manner of places.

In these ways we've earned our greater acceptance—not least by becoming more socially sensitive and accountable. As I'll indicate in a moment, we still have a long way to go. But there's solid evidence we're trying: through experimentation in governance [that] gives broader representation, in better public reporting, in better relations with applicants and grantees. Arrogance—the occupational hazard of philanthropy—is now the chronic target of self-chastening addresses, two of them the major presentations at the 1984 annual conference of the Council on Foundations. But in our avid search for humility, we might remember the delicious comment of a social satirist: "Humility is an elusive quality; just when you think you've found it, you've lost it!"

We've also become far more politically adept. Compare the awkward response to the congressional hearings of 1969 with the sophistication and preparedness shown by both the Council [on Foundations] and Independent Sector in 1984.

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<sup>3</sup> Homer Wadsworth (1913–1994) served as director and president of the Kansas City Association of Trusts and Foundations (1949–1974) and director of the Cleveland Foundation (1974–1984). Wadsworth's interest in promoting greater leadership among national philanthropic institutions inspired his work in developing both the Council on Foundations and Independent Sector.

To the degree described, we have earned the more favorable climate we now operate in. But mostly, let's admit, the change is a function of social circumstance: in these days, the philanthropy we represent is in greater demand—we're more needed, more wanted. We've become a vital part of the democratic system. My guess is that if we were to rewrite the American constitution today, at least some reference would be made to philanthropy (thus elevating it from the lower region of the Tax Code!), or at least to the independent sector. The tenth amendment, in its vague allusion to residual local and private rights, made room for the development of the sector; were a modern-day Jefferson to put his pen to paper again, I'm sure the reference would be more explicit.

The need we are filling is multiform. It begins with our present circumstance of scarcening resources, a circumstance in many respects recalling the Biblical account of Joseph and his interpretation of the Pharaoh's dream: a period of affluence to be followed by an era of shortage. Our funds can no longer be satirized as whimsical add-ons to a secure economy and public fisc; they are essential elements of survival and an essential stimulus to growth that are jealously sought after and monitored by a beleaguered society.

We also represent one facet of the contemporary social trend toward decentralization, the quest for some way of coping with a complexity and scale that transcend the capacity of any one locus of authority and initiative. One can see that trend globally, in the moves toward decentralization in the developed as well as in the developing nations, in capitalistic as well as socialistic societies. Certainly it became evident to those of us serving as the National Academy of Science's Commission on National Urban Policy, where we documented the forced entry of every American metropolis into an environment of intense global competition, with the concomitant need for each locality to struggle largely on its own to accommodate and survive.

I suspect there's a rhythm to these historic trends toward and away from centralization. Centralization, when there's certainty about solutions (witness the heyday of economic theorists, whether classical or Keynesian); decentralization when uncertainty prevails and the premium is on experimentation, exploration, and (not least)



on avoiding final responsibility (witness the political advantage of President Reagan passing on the hot potatoes of current responsibility to the governors, to the mayors, to the private sector). Whatever the cause, these are times in America when the decision-making process is flattening out, and it's no accident that society would respect and nurture the more spontaneous, less constrained style of foundations.

But decentralization also contributes to particularism and the loss of a sense of the whole. Again one comes to cherish the potential of philanthropy to see and deal with things whole. General-purpose foundations are in the best position to realize this potential, being free to scan the whole range of human needs before stating their priorities. But even foundations with specified terms of reference have an opportunity to integrate [that] is given to few other institutions in society. Government is territorialized, so are business firms, so are most functional bodies. Again, one can understand why philanthropy is looked to these days with appreciation.

Philanthropy also represents a "movable dollar": flexible resources [that] can be reallocated with greater speed and fewer restrictions than almost any others publicly available—certainly compared with governmental expenditures which, as their level recedes, expose more and more hard rocks of fixed outlays.

Philanthropy is all the more appreciated for its explicit dedication to an integrity of process and a noble public purpose. What it aspires to is what a growingly suspicious, even cynical, public wants in its heart of hearts the more it is disillusioned by public scandal and private greed. Foundations, even when they have not earned it, somehow have come to stand for rationality amidst political harangue, a commitment to social justice at a time when minorities are outvoted, the children of the poor neglected, and the majority of us beginning to weary of the burden of being our brother's keeper. This week's election showed, if nothing else, that shouldering that burden governmentally is not a platform for electing a President. But still there is the American conscience, all the more grateful for the tradition of private philanthropy—a tradition constantly reminding us of philosopher John Rawls' definition of justice: "You arrive at it by looking at what should be done generally from the viewpoint of the weakest members of society." We can't expect many institutions



[that] are in the market for votes or dollars to abide by that imperative. But we can expect it of philanthropy.

So the social winds are in our favor. Can we fully justify the faith or fulfill the expectations now invested in us? I wouldn't ask the question unless I had some concerns as we now enter the third fifteen-year period stretching from a favorable congressional hearing to the uncertain horizon of the year 2000. And here are some of those concerns:

First, we haven't managed to spread the word of philanthropy very widely; there are far more potential donors in America than have become avid practitioners of the art. To cite a measure of that potential: the Forbes 400 wealthiest persons in America have twice the total assets of all foundations combined. Also, the rate of giving by the wealthiest has actually declined since the Reagan tax cuts and the diminished incentives (increased costs of giving) built into that legislation. Corporations are still contributing at the minimal rate of 1 percent of pretax profits. Think what the impact would be if the extent of giving from those sources were doubled.

Another set of concerns has to do with the mixing of motives in American philanthropy. Personal interest, whim, and aggrandizement play far more of a part in giving decisions than most of us would like to admit. I know this touches some raw nerves and sensitivities, but it's worth reminding ourselves more than occasionally that foundations are established to fulfill a public purpose, not simply to express or satisfy a personal idiosyncrasy. Another source of concern, already mentioned, is the seeming increase in philanthropy [that] reflects a partisan/politicized intent. The question of mixed motive is also fairly addressed to the giving of corporations. First, in the context of across-the-board corporate citizenship; corporations are now paying very little in the way of federal taxes, a fact sometimes conveniently obscured by the rising totals of their charitable contributions. Second, in the pattern of their gifts, which recently have featured "cause-related advertising" and the PR advantages of focusing on popular enterprises such as the restoration of the Statue of Liberty. There are always tradeoffs—on the favorable side, the stimulus to giving, on the questionable side, the redirection of giving from higher to lower priorities of social need and the subtle debasing of the motivation of philanthropy.

Nor are community foundations beyond a poke or two of probing concern. To maintain their standing as public charities, they are legislatively forced into a constant expansion of their asset base; along with this incentive, there's the familiar penchant for growing ever bigger. At what point does the urge to bigness overcome the commitment to purpose and quality? And as community foundations become larger, they become more of a factor in the exercise of power and in the play of local politics. Mayors—in the presence of steadily amassing local philanthropies—have been known to ask, "Who's the government in this community?"

Still another facet of philanthropy that invites concern is the too-easy way in which foundations can and oftentimes do define the public purpose which it is their legal requirement to serve. The requirement can be met simply by giving money to any one of the million or so eligible nonprofit organizations [that] already exist, or to one [that] any of us can easily create. There's virtue in that profusion, but there's also an easy escape from the rigors of a more serious and far-ranging assessment that this society needs from independent institutions that have been given the luxury and latitude of reasoned choice and the longer look. Pet charities, the favoring of friends, and safe havens of giving convert philanthropy into a matter more of prejudice and whimsy than of thought and judgment.

And have we made the governance of foundations too easily accessible to some, too difficult for others? It takes only a glance at the statistics on board composition to see how narrow a sampling of social diversity is represented; philanthropy is still a province of the elite. A question very few of us are prepared to raise and discuss is whether the governance of foundations—as in the case of family foundations—should be "inheritable." The question is not only sensitive; it's debatable. Some of our most effective philanthropies are those in which family and descendants are involved, showing both commitment and admirable social sensitivity. But should the right of governance be in every case earned rather than simply accorded by blood or the buddy system?

As John Nason found when he scanned the nation's philanthropic trustees, those who govern foundations have not scored very high—speaking generally rather than particularly—in meeting the test

either of social breadth or "due diligence." In too many cases, philanthropy is operating in society's cozy corners and taking too casually the responsibilities of trusteeship.

My final concern is whether philanthropy may be straying too far from its humanistic and altruistic origins. The trend toward more professionalized philanthropy has in most respects been a good thing, but not when it stiffens into bureaucracy and loses the spontaneity and compassion of the one-to-one. We have also tended to identify philanthropy almost totally with money and the giving of money; but giving and philanthropy are far more than that, and are often spoiled by it. Another tendency has been toward "gentrification"; we start with a presumed focus on those of less advantage and end by serving the interests of the more privileged. We also sometimes stifle philanthropy by confining it to a world of privatism: "This is our money, and it's no one else's business but ours as to how we spend it."

You knew my genetic melancholy would break through. But even a listing of all these concerns shouldn't turn the happier philanthropic mood of 1984 into a gloomy forecast for the coming fifteen years. I'm convinced we've come a long way over the past thirty years, that we've learned how to self-correct, and that if the year 2000 is still a viable one for human society, philanthropy will have played a vital part in making it so.