



The Relationship Between Private Philanthropy and Government

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"There is a universal appeal in the nonmonetary values philanthropy represents—the notion of a third force dedicated to values [that] go beyond economic gain and political power."

As some of you know, I keep violating a rule I imposed on myself several years ago never to talk on philanthropy again. I do come here to welcome any sign of philanthropic life that I can spot these days, to try to fan it, because my interest is in a very lively philanthropic sector. This is particularly needful after the trauma of 1969 and after the inflationary disasters we have all gone through.

The topic that was given to me was "The Relationship between Philanthropy and Government." But as I read back through some of the study questions, it became clear that my section also had questions relating to the relationships with business and government. So I have decided to talk about the three arts: giving, prospering, and governing. As most of you know, I have been described by conservatives as mildly outrageous and by radicals as outrageously mild, and tend to wander between those two extremes. My interest this morning is in asking radical questions—radical in the sense that they go to the roots of these three arts, these three social processes, and particularly the philanthropic. Somehow these questions peel away at the excuses and crutches we have, and begin to press very hard at what our essential functions are and what our essential social contributions really can be.

Of the archivists, there are several things I would ask. This is an interesting perspective to view philanthropy from—I do not regard it

as "from the tombs" at all, but quite the contrary, if you would join me as futurists who view the future in retrospect. What will you need to provide social historians in the years 2000, or 2025, or 2050? What will you have to contribute to these social historians, who will be asking, "What complementary and countervailing roles did the three sectors play in social development?" Frankly, I would like to see our archivists be far more aggressive than they have been in demanding contemporary records of philanthropy. We have been hit hard by the populist views, the increasing democratization of our society. Our society has forced us to provide records and to do business in the open. I do not remember having heard, except rather mildly, from archivists saying, "We have a legitimate claim on your information." I do know that there has been, for instance, an oral history project in the Ford Foundation. I have watched scholars as they increasingly begin to prowl for philanthropic information, having got the scent of something that is socially significant. But I haven't seen real aggressiveness; and just last week I watched a major foundation refuse a scholar permission to do a case study of its decision-making process.

For the last twenty-five years, we have required this sort of openness on the part of business and government, and I think we should be willing to expose philanthropy, not for exposure's sake, but for learning's sake. The young people I deal with have an extraordinary interest in philanthropy, for a variety of motives. The most popular course taught at the [Harvard] School of Education (barring statistics, which is required) is one on philanthropy, taught by one of our development officers, who responded to the demand and was overwhelmed by the number of people who turned to it.

Reviewing the principal relationships of business, government, and philanthropy, I think it is easy to say historically that the main relationship has been between government and business. This is in contrast to the medieval period, when dualism of church and state characterized society. No one has missed the point that our society is dominated by this dualism and tension between business and government. In a broader perspective, without oversimplifying, the role of philanthropy (the so-called "third sector" of nonprofit institutions) has been more of a pawn than a principal in the triad of social structures. It has been the creature of [business], sometimes

the feared agent of some conspiratorial outside force, and mostly ignored by government until recently.

The faults of philanthropy clearly account for some of this subordinate position. I would draw your attention to John Nason's study of foundation trustees.¹ He has a deep spirit of dedication to the private sector and was deeply troubled by what he discovered when he sampled the trustees of American foundations and found they were years behind college trustees (who themselves had a generation of catching up to do) at the point that government made it clear that legal liability as well as honor went along with their appointment.

The virtues of philanthropy also account for this subordination. It is very difficult for this indeterminant, in-between, rather novel sector in American society, as represented by the foundations, to establish its presence. This is true especially [because] pluralism rather than monolithic consistency is one of its main virtues and sources of energy: it is not one thing, but many. And its credo is modesty, or at least a low profile. But I note as we look ahead for prospects of a vital and strong philanthropic third force that there is now the self-conscious emergence of the third sector. The Filer Commission marks and symbolizes that emergence.

One can enumerate the challenges that face philanthropy in trying to establish itself as a major sector. One of these is scarcity in our times, and the dilemma of funding in a period of dwindling affluence. There is a noticeable relationship between the emergence of abundance in this society—especially corporate abundance—and the blossoming of philanthropy. During the Korean War, for example, when the imposition of an excess profits tax gave added incentive, there was a proliferation, especially of corporate foundations. But we are now in a time when the third sector faces scarcity rather than abundance—precisely at the time when philanthropy wants to maintain a much more dominant role, a much more

¹ Ylvisaker is referring to Nason's *Trustees and the Future of Foundations*, which was published the same year this talk was given. Nason, who was president of Swarthmore College during Ylvisaker's professorship there, served on the boards of several educational and philanthropic institutions. He revised his look at foundation trusteeship in 1989 with *Foundation Trusteeship: Service in the Public Interest*.

aggressive posture. Inflation, stagnation, and reduced yield from investments are trimming the third sector's resources and its potency.

Another challenge comes from the public sector. Tax reform is a conspicuous example—not only the restraints imposed in 1969, but the continuing efforts to expand the coverage of the standard deduction, the net effect being a steady lessening of the incentive to give. [Another example is] tax reform in the sense that loopholes will be closed and those sources of business and personal funding shut off.

Moreover, there is the question of governmental takeover. Government from the 1930s on has not only outspent private philanthropy and established financial dominance, but it has also appropriated the philanthropic function. There are governmental philanthropies like the National Endowments of the Arts and Humanities, the National Science Foundation, the National Institute of Health, and so on. More than that, the governmental process has become more philanthropic in character: faced with a complex society and the inability to finance and solve everything, categorical and block grants have successively become the standbys of public policy. Government has appropriated a large part of the field of private philanthropy and, more seriously, has begun to emulate and in that sense take over the function of philanthropy. In this process, philanthropy has lost leverage. And with depressed public spending, foundations have lost a leveraging influence they could earlier count on—the prospect that a demonstration grant would touch off governmental financing at larger scale.

Another challenge to the private sector and foundations is the process of regulation. We have clearly moved from business dominance over philanthropy to what is emerging as governmental dominance over philanthropy. Foundations are caught in the middle of this transition. They still have much of the value structure of the business community, but the role and ethic of the public and public control are expanding with great rapidity. This is partly a function of the complexity of our society: bureaucratization, large-scale corporate structure, ambitions and pretensions, [and] conspicuous budgets clearly induce the regulatory process.

But the drift toward governmental regulation is more than a

function of complexity. It also flows from the American penchant for fairness, equity, and equality, in our day growing ever stronger. We are witnessing a new age of proceduralization. We in the universities are facing this now. I must say that as one who has helped stimulate the movement in earlier incarnations and then suddenly become a dean, some of my populism has been chastened. On the other hand, I have watched the coming in of fresh air, dispelling the dense fog of whimsy and caprice that often dominates the academic process, because of these new if sometimes clumsy controls. The philanthropic sector is not far behind the universities in becoming subject to these controls. I went back to read a recent Council on Foundations publication, and noticed that about eight pages, or two-thirds of it, was dedicated to the fine points of regulations, IRS decisions, court decisions, etc. Very little of that was required reading when I stopped being a philanthropoid a decade ago.

Another challenge is the weak identity and self-image of foundations and of the third sector generally. There is little sense of presence—not as much as some of our prose would indicate. When public criticism mounts and attacks begin, we don't bark very loud, and I guess it may be because nobody fears our bite. But I think it may be even more because of public uncertainty over who we are. I welcome some of the controversy over philanthropy, even at the cost that it has meant, if only because as the public becomes a bit more informed we are forced to inform the public all the more.

Another factor is mixed values. Again, diversity comes to plague us; but more than that, the congeries of values seen in philanthropy give one a sense of mush. Sometimes one hears hard business principles, sometimes populist democratic ideals, sometimes rather religious expressions, sometimes vague aspirations of social reform. I don't want to become so simplistic as to say we should have a code of ethics or credo that describes our value structure; but something more coherent is called for if philanthropy is to establish more of a presence.

Another problem is philanthropy's preoccupation with and susceptibility to financial and political controls. This became painfully evident to me out of a recent teaching experience. For a course in ethics that I'm teaching, I went back to reading the Church Committee report on security, its final report having to do with

foundations, as a matter of fact, the whole private sector and their vulnerability to intrusion by the CIA.² Well over 100 foundations have been involved; 50 percent of all grants over \$10,000 in the international field not given by the "Big Three" (Rockefeller, Ford, and Carnegie) were involved with CIA expenditures and activities. This amounted to 10 percent of all grants over \$10,000 across the board. In other words, as the Church Committee reported, the intrusion of the CIA into the field of philanthropy can be described "as nothing less than massive." I was not aware of that during the years that I practiced as a foundation bureaucrat, except as a sixth sense might have told me. The fact that the third sector could be so vulnerable must shake our feelings about the strength and viability and the future of philanthropy.

I am equally troubled in a far more subtle sense with the dichotomy between a personal and a public trust. What John Nason found was that foundation trustees tend to think of the money as "our money and nobody else's business," despite the efforts of the Council on Foundations to [correct] this feeling and despite the growing incidence of governmental regulation. We have not touched the bulk of foundations on this, let alone philanthropy at large. This is illustrated by the Council on Foundation's membership, which is less than 10 percent of all foundations in this country. We have a long way to go in educating philanthropy to the concept of a public trust.

Perhaps even more subtle is the preoccupation with money and the money function of philanthropy. Again, the question: "Who would come to you, and what would you do if you didn't have any money to give?" Reading the literature about foundations—inter-office memos, docket items, and so forth—one finds that despite the growing attention to program and purpose, philanthropy is still dominated by the process of exchanging money. The grant is the conspicuous action, and therefore the hallmark of a foundation. I

² In 1975, Senator Frank Church (D-Idaho, 1924–1989) was appointed chairman of the Select Committee to Study Governmental Operations with Respect to Intelligence Activities. The Church Committee investigated alleged abuses of power by the CIA and the FBI. In 1979, he was named chairman of the Senate Foreign Relations Committee.

wonder what you would do if suddenly you did not have to process grants, if your exclusive concern were thinking through society's needs and what (besides spending) could be done about them.

A less subtle preoccupation is with tax exemption. I wonder if philanthropy would have half those regulations if it were not associated with tax advantage. The radical question that I would have to ask in this context is, has philanthropy gained more or lost more by being associated with tax advantage, which has brought us into being but may well compromise our future? It is an excuse [for] regulation, it is an excuse for harassment, and more than that (as I have argued elsewhere) it has kept the third sector from having the full range of free speech. We have allowed Congress to condition the right of free speech because of tax advantage, so that (for instance) we can only speak our mind before legislatures and the public within certain specified constraints. In the world that I see coming, I see more and more the essential role of philanthropy as a countervailing and complementary force, not so much having to do with its money function as with its role in helping set the agenda for public consideration and debate.

A final set of problems in establishing more of a philanthropic presence are the diverging logics and imperatives that will govern each of the three sectors over the next generation—especially if one perceives how confining these logics become within the provincial concepts of nation-states and established social orders and what each must do, or feels it must do, in order to survive intact. Call to mind the case of the immigration problem along our own southern border, illustrative of the growing fluidity of massing populations and poverty worldwide. The logics of business are very insistent; it's a tough market out there, and companies are led to chase competitive returns on investment across national lines, and sometimes across moral lines as well. Nations whose lines are crossed follow their own defensive and aggressive logics. In that environment, I would argue that philanthropy—the third sector—needs all the more to assert a logic of its own: a more universalistic ethic [that] transcends the limitations of business and government and most likely will be increasingly in tension with both.

I am happy to see signs that philanthropy is helping give expression to a "third logic." With private support, the Club of

Rome³ and economists Tinbergen and Leontief⁴ are beginning to talk about the basic changes in the world order [that] will have to occur if we are going to keep any modicum of peace. We are in many ways at a time not dissimilar to that of the aristocracy before the French Revolution; the question is whether we can move swiftly enough in shaping a viable new order to avoid global violence. Philanthropy can be a powerful bridging influence, but not without distinguishing itself and its imperatives more clearly from those which—at least in the short run—control business and government. Frequently, the third sector will have to take some very tough positions [that] diverge from the value structures of its founders. This has to do with social justice and distribution. The challenge to the existing order is basically one involving a redistribution of resources; the emphasis is increasingly on social justice. Philanthropy [has] long [been] wedded to the existing pattern of resource distribution; it will not find it easy to challenge or change that pattern, or to work sympathetically with new constituencies.

Let me indicate another area where the tensions are going to be extraordinary—that is immigration. Stop to look at the world as a repository of six or seven billion people, as it shall be shortly, 80 percent of them below the line of poverty. Latin America, with

³ The Club of Rome was established in 1968 as an international group of 100 scientists, economists, businessmen, civil servants, heads of state, and former heads of state who seek “to adopt a global perspective, to seek a deeper understanding of interactions within the tangle of contemporary problems, to suggest effective solutions, and to take a longer term perspective in studies than governments do,” according to the Club’s mission philosophy (published on the World Wide Web at http://www.clubofrome.org/cor_declaration.htm as of January 1997). Its members vow to devote a “significant proportion” of their time and talents to “helping to build societies that are more humane, more sustainable, more equitable, and more peaceful.”

⁴ Dutch economist Jan Tinbergen (1903–1994) awarded the Joint Nobel Prize in Economic Science in 1969, is credited with developing the first econometric models. Published *Income Distribution: Analysis and Policies* (1975). Russian-born Wassily Leontief (1906–?), awarded the Nobel Prize in Economics in 1973, advanced the theory of international trade and its empirical implementation. Publications include *Studies in the Structure of the American Economy* (1953) and, just prior to this speech, *The Future of the World Economy* (1977). Both economists were active in the study of input-output analysis.

growth rates over 3 percent, is one of those bulging reservoirs. Its accelerating overflow across the Rio Grande now accounts for most of the approximately 800,000 illegal immigrants sifting into the United States annually. If you have walked the streets of American cities, particularly in the coastal regions, you will find new populations accumulating. If you then think in a global way, you will see our cities as underutilized infrastructure for a world that has too many people and too few cities for them to live in. Mexico certainly doesn't have enough to absorb its urbanizing people. That's why the Mexican president reacted so apprehensively when President Carter indicated that he was going to close off immigration from Mexico to the United States; he knew the only other place his "surplus population" would move to was an already overwhelmed Mexico City. In contrast, our central cities are losing populations; even with deterioration and unemployment, they remain relatively attractive magnets for increasing millions of potential migrants from the impoverished Third World. I have seen it happening. I have gone back into the New Jersey cities that I knew so well ten years ago, and found population that I have never experienced before, languages that I did not know, and certainly cultures that I was unacquainted with.

There is [another] third world growing and on the move, a constituency philanthropy increasingly has to orient to, frequently alienated from the social and political sectors philanthropy has been aligned with. You can glimpse a local colony of that third world in the youth of our cities—40 percent of them unemployed and alienated.

We are living now with problems our economy and established order haven't solved. They have not grown enough opportunities for the children we have borne. That's the tragedy my generation has to account for. Youth is developing a kind of counterculture, and we are beginning to see illustrations of it around the world. I do not like to point with alarm, but I would say that spontaneous acts of violence—and some not so spontaneous—are going to be repeated more and more in our society. Recently one foundation commissioned a report, not yet released, on behavior patterns during the recent New York blackout. The pattern that study reveals is much different from the civil uprisings of the 1960s: the "rip-off" has

replaced the cry for social justice. The preconditions for anarchy seem to be forming: a counterculture eating its way like an acid through the pretensions, the ideals, of the existing system.

A more attractive, but still challenging, quality of this developing "third world" is the free and growing spirit within us. Don't be misled by the currently conservative demeanor of today's college generation. If you read the book by David Ewing, *Freedom Inside the Organization*,⁵ which describes the frustration in the corporate organization of people who want to live whole lives and exercise their rights, you sense again the power of that spirit within. Certainly that restiveness for self-expression is evident in the emerging Hispanic population within the United States. I encounter it among those enrolling, happily in increasing numbers, in graduate education at Harvard. They are spirits on the move. But they are struggling with ambivalence—a strong wish to succeed within the system and a reluctance to accept it, knowing what meager room and reward it has given their own community. They are wrestling with what political posture they ought to be taking; they have analyzed the Black "revolution" of the 1960s—which was partly productive and partly counterproductive. But they do not see themselves in quite that same mold. How does a young person with great sophistication about the realities, and great hopes for his or her future, perceive and deal with current social structures and participate with integrity? For me, this is a fascinating enterprise, and I welcome even the harder moments that go with it (being called a tool of the establishment is not one of my chosen experiences).

Another sense of growing value tensions, and of the need for an assertive third force, has come with my participation on the board of a multinational enterprise, the Van Leer Packaging Industries, whose net earnings flow wholly and directly into charitable activities. Its structure is unique, but the questions we're struggling with are generic—again, the respective roles of the three sectors. As you know, the rights of property (property in the sense of establishing dominion or control) are now diminishing. Rising social consciousness is nibbling away at those rights, particularly on the European

⁵ New York: McGraw-Hill, 1977.

scene, where workers now have veto rights over corporate board appointments and where the socialist parties are beginning to develop their own philanthropies for job creation funded through a kind of excess profits—which in effect sluice corporate earnings directly into state-operated foundations. What this does, obviously, is to short-circuit private philanthropy, bypass the role of the third sector. In the short run, these developments threaten existing patterns of management and dominion in business, government, and philanthropy; certainly they challenge the novel way in which the Van Leer group has turned conventional capitalism on its head and run a business for the benefit of disadvantaged children rather than simply to turn a profit. Yet thinking beyond Van Leer, I wonder whether private philanthropy has thought itself creatively beyond the industrial era in which it was born, into a post-industrial era when the role and concepts of business and government—reading from present trends—will almost certainly be transformed.

I see this as a cutting edge for philanthropy, a question far more challenging than whether or not you have X amount of money or can maneuver around Y or Z regulations. The big foundations have begun addressing it; they should take the lead, because they—and the endowed foundations they represent—are the most secure and influential segment of the third sector. They have the capacity to help set a public agenda that responds to emerging circumstance and to the independent spirit within all of us that is searching for a restructured definition of issues, a new dimension in social thought.

Let me conclude with two specific suggestions. The first is to encourage the instinct for self-renewal within American philanthropy, an instinct I see expressed—imperfectly, no doubt—in the coalescence of gadflies who first formed the Donee Group⁶ and then established the National Committee for Responsive Philanthropy. That group, I know, has the inherent fault of being claimants as well as critics. What I find disturbing is the tendency of established philanthropy to dismiss them rather than to pick up the cause of self-renewal and a more effective third sector which they are trying to represent.

⁶ An outgrowth of the Filer Commission. See p. 283.

A second suggestion has to do with the internationalization of philanthropy. At this very moment, the Arabs have sent a delegation to Japan to compare notes with representatives of the Toyota Foundation and other philanthropies. The Japanese in recent years have moved quickly into the field; so far, their entry has been closely tied to corporate interests, and I suspect that's the experience the Arabs will be principally concerned with. But the essential logic of the third sector in modern society has not been lost on the Japanese; my quest—at least my hope—is that the notion of an independent third force will germinate and grow in that and other sections of the world. Those of you who have met with the Toyota Foundation will appreciate the speed and acumen with which they and other newcomers to philanthropy have comprehended its fundamental nature and social potential. It will not be easy in their culture to realize that potential. But there is a universal appeal in the nonmonetary values philanthropy represents—the notion of a third force dedicated to values [that] go beyond economic gain and political power.

Communicating just that on a global scale is the ultimate challenge of American philanthropy.