

KATHLEEN MCCARTHY

Anonymous Donor

A new era of wealthy foundations demands a new era of transparency.

THE FOUNDATION: A GREAT AMERICAN SECRET—HOW PRIVATE WEALTH IS CHANGING THE WORLD BY JOEL FLEISHMAN • PUBLIC AFFAIRS • 2007
341 PAGES • \$27.95

S

everal years ago, the *New Yorker* ran a cartoon showing a man in a suit throwing money out a window. An older colleague is running up behind him, arms waving wildly, screaming, “Just a minute, young man. That’s not the way we do things at the Ford Foundation!” As the caption slyly suggests, foundation operations are often poorly understood. Efforts to poll citizens on the street for their impressions of foundations tend to produce hilarious results, while Dwight Macdonald famously reduced these institutions to “a large body of money completely surrounded by people who want some.”

In his new book, *The Foundation*, Duke University’s Joel Fleishman pulls aside the veil of mystery to educate general readers, potential donors, and the “philanthropoids” who run these institutions about what foundations were, are, and should be. He has chosen a uniquely opportune time to do so. Richard

KATHLEEN MCCARTHY is a professor of history and director of the Center on Philanthropy and Civil Society at the Graduate Center, City University of New York.

Branson's \$3 billion pledge to combat global warming, Warren Buffett's \$31 billion gift to the Gates Foundation, and that foundation's continuing growth are just a few of the avalanche of stories about philanthropy that have filled the news this past year. This generosity marks the culmination of the "second Gilded Age," a rough-and-tumble period of corporate expansion, corruption, and king-making akin to the first Gilded Age a century ago, which consolidated the fortunes of men like John D. Rockefeller and Andrew Carnegie.

However, the extraordinary generosity of the Buffett and Gates families is only part of the story. The other is the unprecedented growth in the number of foundations over the past three decades, the majority of which have been nothing like the headline-grabbing giants. Rather, they are small organizations operating at the community level, but also playing an increasingly significant role in the American public sphere by virtue of their numbers. Only a few foundations were in operation during Rockefeller's lifetime; today, there are more than 70,000, up from 22,000 in 1980. Together, they control over \$500 billion in assets, a figure that some observers predict may reach \$2 trillion in the coming decades.

Foundation philanthropy has become big business. And it has done so in an era of government downsizing, devolution, and deficits.

Clearly, foundation philanthropy has become big business. And it has done so in an era of government downsizing, devolution, and soaring deficits, trends that will shape the role of the nonprofit sector for decades to come. At the same time, there has been a growing emphasis on accountability. Senator Charles Grassley recently led an investigation of foundation and nonprofit activities, which some believe may be an opening salvo in a string of queries akin to those that occurred in the wake of the last significant spurt in foundation growth, in the 1950s and 1960s. These hearings, in turn, were sparked by a series of exposés that ran in the *San Jose Mercury* and the *Boston Globe* about abuses at the Irvine Foundation and an array of smaller organizations.

There is no doubt that this sort of scrutiny will continue, and perhaps rightly so. Not only journalists, but all those in the public sphere, will doubtless take notice as this increasingly wealthy and entrepreneurial sector plays a more influential and direct role in public policy—from education for inner-city children to battling HIV/AIDS and promoting maternal and child health in Third World villages. Indeed, recognizing the shape and influence of the foundation community may be critical to understanding the future of American policy-making.

What impact do foundations have? That is, what value do they add, and how do they optimize the efficacy of their grants? This question surfaced at the Grassley hearings, but it unfortunately elicited little more than isolated anecdotes. Indeed, the question is key to understanding the rationale for creating foundations from their beginning. Men like Rockefeller and Carnegie had strong ideas about the obligations of wealth and the importance of systematizing their giving. “The man who dies rich dies disgraced,” thundered Carnegie, who siphoned much of his fortune into the Carnegie Corporation and the Carnegie Foundation for the Advancement of Teaching (CFAT). Rockefeller viewed foundations as a means of transposing the corporate model that he developed at Standard Oil onto “the business of benevolence.” Run by the “best men,” heavily capitalized and funded in perpetuity, these institutions broke with earlier philanthropic models by building their own professional staffs, investing in research, and demanding measurable results. Rockefeller drew a sharp distinction between charity, which deals with symptoms, and philanthropy, which aims at the root causes of social ills. Unlike charities, foundations were designed to identify social problems, test solutions, and provide replicable models for national and international reform.

Fleishman taps into this definition, arguing that foundations conferred “significant social benefit on the people of the United States over the past century.” This can be overstated, however, since grant-makers historically underwrite the development of new social initiatives but rarely have the resources to develop them comprehensively, leaving that work to the government. To illustrate his point, Fleishman provides a series of case studies of influential grant-making programs in medical and minority education, public policy research, public television programming, and agricultural and social reform. Although he skips lightly over some of the critical commentary surrounding these activities, his point is well-taken. At their best, foundations can indeed provide resources for innovation and reform within specific fields.

Although Fleishman’s list is longer, grant-makers have historically shaped their most influential initiatives around four objectives. First, they have served as venture capitalists for new ideas. The big grant-making foundations like Carnegie, Rockefeller, and Ford spend significant amounts of money on research. In the early twentieth century, they invested their funds in medical studies, education, and the social sciences, helping to develop policy briefs for a variety of reforms. Their efforts were rooted in the Progressive faith in “disinterested expertise”: the belief that impartial research will yield unbiased prescriptions for reform and positive social change. Although this notion has come under fire from both the left and the right in recent years, it still infuses the work of

many of the largest so-called “liberal” foundations. Many of the resulting projects directly influenced government initiatives. For example, the Rockefeller Foundation supported the research of Robert Oppenheimer, Enrico Fermi, and Edward Teller and invested more than \$1.5 million to develop a cyclotron for processing uranium, paving the way for the Manhattan Project. Gunnar Myrdal’s study of race relations, *An American Dilemma*, which was commissioned by the Carnegie Corporation, afforded vital background information for the Supreme Court’s 1954 *Brown v. Board of Education* decision. A decade later, the Ford Foundation’s Gray Areas grants provided the template for Lyndon Johnson’s Great Society community action programs, while Rockefeller underwrote the planning for New York City’s Lincoln Center, one of the largest public-private cultural initiatives in American history.

A second way in which grantmakers have made an impact is by building and nurturing communities of experts. Professional development has been one of the hallmarks of leading foundation initiatives since these institutions first appeared. Perhaps the most famous professionalization campaign was sparked by Abraham Flexner’s 1910 report to CFAT on *Medical Education in the United States and Canada*, which Fleishman cites for its role in modernizing medical training. The Rockefeller Foundation helped to build a variety of international scientific networks, and it figured prominently in the development of fields such as public health. Similarly, the Ford Foundation has spent three decades fostering the careers of nongovernmental leaders in developing nations, and the Skoll Foundation is now doing the same with social entrepreneurs.

Foundations can also develop new institutions. For example, CFAT addressed Andrew Carnegie’s concern that college professors lacked adequate retirement funds by creating the Teachers Insurance and Annuity Association (now TIAA-CREF), backed by a \$1 million endowment grant from the Carnegie Corporation. More recently, George Soros built a network of foundations across Eastern Europe and the former Soviet Union as a means of aiding civil society organizations and promoting his vision of open societies, while Ford and Mott have invested in the development of community foundations around the world to stimulate the globalization of philanthropy.

Finally, donors often enhance the impact of their grants through partnerships. Despite the remarkable upsurge in the number of foundations over the past three decades, they still account for only a thin slice of the total philanthropic pie. Most of the money (at roughly 83 percent) comes from individuals, with foundations contributing a scant 11.5 percent. As a result, they have historically sought partnerships with governments and other donors to replicate their work, maintain it over the long term, and bring it to scale. The earliest initiatives, such

as the Peabody Fund's Southern schools and Rockefeller's efforts to eradicate hookworm and malaria in the American South and overseas, were demonstration projects designed to be adopted and amplified by government agencies.

Collaboration became more necessary—and more alluring—with the growth of government programs and corporate giving. In the first half of the century, foundation resources exceeded those of governments in many fields, such as medical and policy research. When the Ford Foundation emerged as a national and international grant-maker in the 1950s, its assets eclipsed the budget of the entire United Nations system by a considerable margin. By the 1970s, the situation was reversed. While federal expenditures skyrocketed, foundations' purchasing power withered with inflation. By the 1980s, the emphasis on collaboration was becoming more widespread, including efforts to reach out to corporate donors, as well as government agencies.

Although the largest foundations tend to publicize their programs, only a fraction of the rest have followed suit.

The most effective grant-making programs often combined all four types of activity, cobbling together ideas, professional networks, new institutions, and partnerships with government. The success of a small number of conservative donors in creating a constitu-

ency for their ideas is a case in point. For decades, grant-makers like the John M. Olin Foundation targeted their funding to institutions that promoted public policy-making and trained emerging conservative scholars. In the process, they generated ideas that often directly influenced federal initiatives; developed an institutional presence on many campuses; and nurtured think tanks that worked hand-in-glove with government policy-makers.

Of course, not every grant has had an indisputably positive effect, even among those cited in Fleishman's case studies. For example, many might question the legacy of the conservative revolution that grant-makers helped to bankroll, particularly in light of the events of the past six years. The Rosenwald Fund's initiatives came under fire for their "separate but equal" mentality in funding segregated institutions for African Americans, and the Rockefeller Foundation's efforts to increase crop yields in developing nations through the "Green Revolution" have been criticized for their environmental side effects.

Yet because work on this scale requires significant funding, it is almost exclusively the preserve of large foundations, a fact that Fleishman underplays, focusing on the country's largest grant-makers, those capitalized at over \$50 million, which control over 70 percent of all foundation assets. The bulk of the nation's grantmakers are considerably smaller. Roughly 90 percent are capitalized at less

than \$10 million, and almost two-thirds have assets of less than \$1 million, which means that they tend to be small, locally oriented, and understaffed. Developing new ideas, professional networks, new institutions, and funding alliances requires professional staffs to do the research, convene the meetings, visit grantees, attend conferences, and build the necessary knowledge base for informed grant-making. This is the model that undergirded Rockefeller's "scientific" philanthropy, and this is the model that is still used by the giants like the Gates Foundation. But smaller donors lack the resources—and often the inclination—to pursue this pattern.

Nonetheless, the smaller institutions do play a distinctive role in their communities, underwriting nonprofit service delivery and providing continuing cash reserves after the donor's death. They can afford a cushion during economic fluctuations and shifts in government funding, and additional resources to help nonprofits weather emergencies like September 11 or Hurricane Katrina. At their best, they can make a noticeable impact by concentrating on a single field rather than scattering their grants in all directions, which is the more common pattern. And because of their numbers, they will play an increasingly important role at the local level, particularly if government funding diminishes. Unlike the grant-makers that Fleishman discusses, these are pillars of continuity, rather than catalysts for social change.

However, one trait that small foundations do share with larger donors is an aversion to public scrutiny. Foundations are, in Fleishman's words, "the least accountable major institutions in America," a fact that may have profound implications for their future dealings with Congress. Surprisingly, this wasn't always the case. Rockefeller's key adviser, Frederick Gates, was keenly aware of the need for public accountability, arguing that foundation activities should be "a matter of public concern, public inquiry, and public criticism." Toward that end, the Rockefeller Foundation initially sought a federal charter that would have given the president and the chief justice of the Supreme Court veto power over its board appointments. When that effort failed, it was incorporated in the hospitable legal environment of New York with a self-perpetuating board, which became the standard model of foundation governance. But, while grant-makers are required to file annual reports with the IRS, pay out a minimum of 5 percent of their assets (primarily in grants), and avoid self-dealing, Rockefeller's initial belief in the value of strong government oversight has faded over time. Rather, the evaluation of foundation programs, performance, and ethical standards resides with their donors, staff, boards—and the press, when it can crack open a door to assess the operations of grant-makers who shield themselves from public view.

Which is not to say that Congress doesn't occasionally force open the door as well. The lesson that secrecy does not serve foundations well was brought home with full force during the congressional investigations of the 1950s and the '60s, when they were attacked in Congress first from the right, then from the populist left. During the McCarthyite investigations of the 1950s, the Rockefeller Foundation was accused of contributing to the fall of China into communist hands through its funding of the Peking Union Medical College, and Ford was tarred for ostensibly seeking to foster the same results in "pro-Communist India" through its grantmaking activities. Although the charges were frivolous, the lesson was clear: If you fail to tell people what you are doing, and why it is important, they will believe anything. Afterwards, the big foundations took the lead in encouraging grantmakers of all sizes to publish annual reports, but this came with mixed results.

Today, although the largest foundations tend to publicize their programs, only a fraction of the rest have followed suit. A 2006 survey by the Foundation Center reported that only 1,645 (7.8 percent) of the nearly 21,000 large grant-makers surveyed issued annual reports, and only 2,599 (12.4 percent) had websites. This presents a jarring double standard. Even the smallest nonprofit organization generally has an online report listing its programs, history, and mission. Very few grant-makers do, despite the fact that they enjoy substantial tax benefits: Fleishman estimates the public revenues ceded through the tax benefits to foundations at roughly \$20 billion in 2003 alone. He suggests the need for increased state and federal oversight and the creation of a private Foundation Transparency Rating Board to foster self-regulation and enhanced accountability. Given the growing percentage of the nation's wealth that they control, and the significant tax concessions that they enjoy, at minimum grant-makers should be required to describe their activities online, if not in print.

There are also varying levels of openness to public scrutiny. The historical records of the Rockefeller Foundation and several other grant-makers, such as the Russell Sage Foundation and the Rockefeller Brothers Fund, are open to scholars at the Rockefeller Archive Center, which is why Rockefeller's history is well-known. The largest grant-makers issue a variety of reports on their work, and a few, like Ford and Robert Wood Johnson, have a professional communications staff. Major donors like Gates, Mott, and Soros have highly detailed websites, while others post bare-bones accounts of their operations on the Web. However, as the statistics indicate, the majority issue nothing at all, preferring anonymity. The IRS currently collects data on the availability of online reports, information that could be used to require all foundations to educate the public more aggressively about their activities.

But the argument for more openness goes beyond a taxpayer's right to know and includes the very role of nonprofit institutions in American society. Foundations may be at a critical juncture in their history. Fundamental questions may be raised over the next decade about their function in a democratic society. Critics from the center-left, such as former Knight Foundation President Hodding Carter III, have already taken them to task for remaining silent amid growing human rights abuses and the muzzling of the press after September 11. Conversely, those on the right want foundations to shed their historic roles in spinning off new government programs to assume caretaker responsibilities, maintaining nonprofit organizations amid shrinking public outlays in lieu of contributing to the growth of the state.

As the full impact of the federal deficit begins to be felt, questions concerning the appropriate role of philanthropy will become increasingly important. If the Bush tax cuts and alternative minimum tax relief are extended or if the war in Iraq continues, some very hard choices will have to be made about what can be funded at the federal level. States will feel the pinch as well as they inherit responsibility for the remaining services, which will increase pressure on local legislators to find additional funds—possibly including foundation assets. Sunset laws—legislation requiring foundations to spend down their assets within a specified amount of time—were a recurring theme in earlier congressional inquiries into grant-makers' activities, and there is reason to believe that such a proposal may surface again.

We are entering a period of extraordinary policy challenges, as the volatile brew of deficits and demographics—including the needs and prerogatives of aging baby boomers—begins to reach a boil. Finding a way to bridge the current ideological divide and to build viable programs to deal with these issues in an era of limited government may be the greatest challenge of all. Foundations have the resources to underwrite the development of new approaches for dealing with these issues. But if they persist in remaining “a great American secret,” as Fleishman terms it, they may not have the opportunity to play that role. Unless the entire foundation community begins to work more consciously to convince legislators and the citizens who elect them of their legitimate value in a democracy this teeming, diverse sector may jeopardize its independence and its ability to sustain itself over another century. ▀