**Lead Essay:  
What Are Foundations For?**

*Rob Reich*

*This article leads off our* [*debate*](http://www.bostonreview.net/BR38.2/ndf_foundations_philanthropy_democracy.php) *on philanthropy, with responses from Stanley Katz, Diane Ravitch, Larry Kramer, and others.*

Graham Smith

Judge Richard Posner, one of the foremost American jurists outside the Supreme Court, once observed, “A perpetual charitable foundation . . . is a completely irresponsible institution, answerable to nobody. It competes neither in capital markets nor in product markets . . . and, unlike a hereditary monarch whom such a foundation otherwise resembles, it is subject to no political controls either.” Why, he wondered, don’t we think of these foundations as “total scandals”?

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| |  | | --- | | FORUM RESPONSES | | [**Stanley N. Katz**](http://www.bostonreview.net/BR38.2/BR38.2/ndf_stanley_katz_foundations_philanthropy_democracy.php) The public does not seem to care what billionaires give their money to. | | [**Diane Ravitch**](http://www.bostonreview.net/BR38.2/ndf_diane_ravitch_foundations_philanthropy_democracy.php) In education three huge foundations line up behind the same agenda. | | [**Christopher J. Coyne**](http://www.bostonreview.net/BR38.2/ndf_christopher_coyne_foundations_philanthropy_democracy.php) Foundations represent an important form of voluntary choice. | | [**Deborah Fung**](http://www.bostonreview.net/BR38.2/ndf_deborah_fung_foundations_philanthropy_democracy.php) Foundations’ ideas, not just their money, can create fundamental change. | | [**Paul Brest**](http://www.bostonreview.net/BR38.2/ndf_paul_brest_foundations_philanthropy_democracy.php) Foundation-supported advocacy can counter the immense power of corporations. | | [**Rick Cohen**](http://www.bostonreview.net/BR38.2/ndf_rick_cohen_foundations_philanthropy_democracy.php) Increasingly, foundations support initiatives that they create and run. | | [**Scott Nielsen**](http://www.bostonreview.net/BR38.2/ndf_scott_nielsen_foundations_philanthropy_democracy.php) Foundations aren’t plutocratic, but they have power in civil society. | | [**Tyler Cowen**](http://www.bostonreview.net/BR38.2/ndf_tyler_cowen_foundations_philanthropy_democracy.php) There is no conflict with principles of accountability. | | [**Seana Valentine Shiffrin**](http://www.bostonreview.net/BR38.2/ndf_seana_valentine_shiffrin_foundations_philanthropy_democracy.php) When universities rely on foundations, they risk yielding to their funders’ judgments. | | [**Pablo Eisenberg**](http://www.bostonreview.net/BR38.2/ndf_pablo_eisenberg_foundations_philanthropy_democracy.php) Foundation payout rates should rise, and tax incentives be reduced. | | [**Larry Kramer**](http://www.bostonreview.net/BR38.2/ndf_larry_kramer_foundations_philanthropy_democracy.php) The issue is not foundations as such, but wealth. | | [**Eric Beerbohm**](http://www.bostonreview.net/BR38.2/ndf_eric_beerbohm_foundations_philanthropy_democracy.php) Putting a shelf life on an organization can help insure that it adheres to its principles. | | [**Robert K. Ross**](http://www.bostonreview.net/BR38.2/ndf_robert_ross_foundations_philanthropy_democracy.php) Institutional philanthropy is required to make our odd governance structure work. | | [**Gara LaMarche**](http://www.bostonreview.net/BR38.2/ndf_gara_lamarche_foundations_philanthropy_democracy.php) Whenever the philanthropic establishment’s prerogatives are threatened, it rises up in resistance. | | [**Emma Saunders-Hastings**](http://www.bostonreview.net/BR38.2/ndf_emma_saunders-hastings_foundations_philanthropy_democracy.php) We could choose to promote pluralism and discovery in ways that do not reinforce plutocracy. | | [**Rob Reich replies**](http://www.bostonreview.net/BR38.2/ndf_rob_reich_reply_foundations_philanthropy_democracy.php) Plutocratic voices can support democratic ends. | |

If foundations are total scandals, then we have a massive problem on our hands. We are now living through the second golden age of American philanthropy. What Andrew Carnegie and John D. Rockefeller were to the early twentieth century, Bill Gates and Warren Buffett are to the early twenty-first century.

The last decade of the twentieth century witnessed the creation of unprecedentedly large foundations, such as Gates’s. The assets of the Gates Foundation and a separate Gates Trust, which holds wealth donated by the Gates family and Buffett, together total more than $65 Billion. If the combined entities were a nation, it would be 65th on the world GDP list. And it’s not just billionaires and their mega-foundations that command attention. Record wealth inequalities might be a foe to civic comity, but they are good for philanthropy. The boom in millionaires has fueled unprecedented growth in the number and assets of small foundations as well.

So foundations have seen explosive growth. But why are they a scandal? If Carnegie was right that the man who dies rich dies disgraced, then these foundations and their big donors should enjoy a good reputation, and, indeed, they do. A 2011 Gallup poll put Gates and Buffett among the ten most admired Americans. Shouldn’t we be grateful to the person who devotes his private wealth to public purposes, rather than consuming conspicuously or passing his wealth to children and relatives?

Perhaps. But whatever the personal virtues of wealthy philanthropists, Posner presents us with a forceful challenge to the role of foundations in a democracy. (Posner worries most about the perpetual charitable foundation, but the challenge is more general.) A democratic society is committed, at least in principle, to the equality of citizens. But foundations are, virtually by definition, the voice of plutocracy. The assets of a modern philanthropic foundation are set aside in a permanent, donor-directed, tax-advantaged private endowment and distributed for a public purpose. These considerable private assets give it considerable public power. And with growing wealth and income inequality, their apparent tension with democratic principles only intensifies.

**• • •**

**Unaccountable and Opaque**  
The modern foundation is an institutional oddity in a democracy.

In a democracy, officials responsible for public policy must stand for election. Don’t like your representatives’ policy views? Vote against them in the next election. This is the accountability logic internal to democracy—responsiveness to citizens. It does not always work this way, but the logic has some real force.

But foundations have no electoral accountability. Don’t like what the Gates Foundation did with its $3.4 billion in 2011 grants ($9.3 million each day of the year), or what it has done with $25 billion in grants since its inception in 1994? Tough, there’s no way to vote out the Gateses. Referring to the Foundation’s considerable and influential education grants, critic Diane Ravitch has called Bill Gates the nation’s unelected school superintendent.

Moreover, as Posner indicates, foundations lack marketplace accountability. In the commercial marketplace, companies routinely face competition from rivals seeking to take away customers. Don’t like or want what a company produces? Then don’t buy it. If most consumers think this way, the company disappears. This is the accountability logic internal to the marketplace—meeting consumer demand. It does not always work this way, but the logic has some real force.

Foundations, in contrast, do not sell goods and face no marketplace competitors. Instead of selling anything, foundations give money to other organizations. Don’t like the grant-making decisions of a foundation? Tough, there’s nothing to buy, no investors to hold them accountable.

Foundations do have certain obligations of procedural accountability. In the United States, a “payout” rule mandates that foundations disburse at least five percent of their assets every year, though the costs of running a foundation count toward this payout. Foundations are also required to file an annual tax form with some basic data about trustees, employees and their salaries, and assets.

A democratic society is committed to the equality of citizens, but foundations are the voice of plutocracy.

But fulfilling these minimal obligations has no substantive effect on foundation activity: without consumers, competitors, or constituents, wealthy people are free to set up foundations for whatever purpose they please, with whatever money they wish. And the foundations are free to hew to this purpose, potentially in perpetuity, whatever the results of the grant-making.

To be sure, foundations must direct their grants to public charities or, in tax parlance, 501(c)(3) nonprofit organizations. But in the United States, virtually any organization can be structured as a nonprofit so long as it promises not to distribute profits to its owners. So the public charity rule is no limit at all.

Grantees don’t provide much accountability either. A potential or actual grantee has little incentive to criticize a foundation. As a general matter, grant seekers are supplicants. Exaggerating only slightly, I’ve found that people who become foundation officers are often surprised to find themselves transformed into the smartest and best-looking people in a room.

Transparency might increase accountability. But apart from fulfilling the payout and tax-filing obligations, foundations can, and frequently do, act secretly. They need not have a Web site or office, publish an annual or quarterly report, or articulate any grant-making strategy. They need not evaluate their grant making. If they do, they need not make such evaluations public.

Foundations sometimes do act transparently, providing all of the above information and more. But this is a function of the idiosyncratic preference of a particular foundation, not a legal framework or professional norm.

Thus foundations are often black boxes, stewarding and distributing private assets for public purposes, as defined by the donor. And that donor’s intent may hold sway *forever*. Foundations are legally designed to enshrine the donor’s wishes in perpetuity, allowing the donor’s dead hand to extend from the grave across generations. Foundations must be governed by a board of trustees, but the donor and her family or trusted associates can serve in this role; there is no requirement of community or public governance. The Gates Foundation’s board, for example, is Bill and Melinda Gates, William Gates Sr., and Warren Buffett. The governance arrangements of countless smaller family foundations look similar. Financial advisors who set up family foundations routinely market them as vehicles for the intergenerational sustenance of family values.

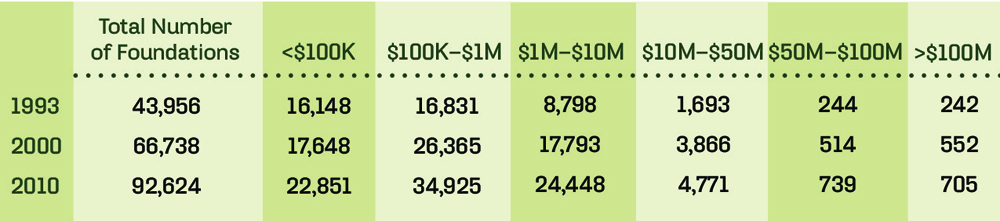
All of this might be understandable, if not necessarily justifiable, if foundations were simply one way for the wealthy to exercise their liberty: some choose to consume their wealth; some choose to provide gifts and bequests for heirs; others choose to give their money away for a philanthropic purpose. Why demand accountability for the philanthropists?

Because foundations are not simply exercises of personal liberty.

In *American Foundations* (2002), Mark Dowie relates an amusing and instructive anecdote about the Open Society Institute, one of several foundations set up by financier George Soros. During a meeting to resolve a disagreement about grant-making priorities, Soros is alleged to have announced, “This is my money. We will do it my way.” At which point a junior staff member interjected that roughly half of the money in the foundation was not his money, but the public’s money, explaining, “If you hadn’t placed that money in OSI . . . about half of it would be in the Treasury.” Dowie reports that the junior staffer did not last long in the Soros foundation’s employ.

Philanthropy in the United States is not just the voluntary activity of a donor. Philanthropy in general, including the work of foundations, is generously tax-subsidized. The assets transferred to a foundation by a donor are left untaxed in two respects: the donor makes the donation more or less tax-free, diminishing the tax burden she would face in the absence of the donation; and the assets that constitute a foundation’s endowment, invested in the marketplace, are also mostly tax-free. The details of the subsidy have varied over time, but philanthropy in the United States has long involved subsidizing the exercise of individual liberty.

It was not always this way. Philanthropic activity dates back to antiquity. Tax incentives for philanthropic activity date back only to 1917. The Carnegies and Rockefellers, and their many philanthropic predecessors, shared their wealth without any federal tax incentive.

The number of foundations has been growing at every asset level for decades.

Why subsidize the exercise of this liberty? One can imagine various possible justifications for a subsidy—most prominently, that tax incentives will increase philanthropic giving.

Whether this is really so is an open empirical question. The normative question—about whether such subsidies are justified—is also open. My intent here, though, is to answer neither question. However those questions are resolved, the fact remains that foundations are partly the product of public subsidies. They are created voluntarily, but they result in a loss of funds that would otherwise be tax revenue. In 2011 tax subsidies for charitable giving cost the U.S. Treasury an estimated $53.7 billion.

So foundations do not simply express the individual liberty of wealthy people. We all pay, in lost tax revenue, for foundations, and, by extension, for giving public expression to the preferences of rich people.

**• • •**

**The Case for Foundations**  
With little or no formal accountability, practically no transparency obligations, a legal framework designed to honor donor intent in perpetuity, and generous tax breaks, what gives foundations their legitimacy in a democratic society?

Let us dismiss quickly one common and intuitive thought: that foundations exist because they are remedial or redistributive, responsive to the needs of the poor or disadvantaged. In fact, giving for basic needs represents a surprisingly small percentage of foundation activity. Indeed, it represents a surprisingly small percentage of all charitable giving.

And in any case, conceiving of foundations as alms-giving entities implies that a more socially just world—a world in which, say, desperate poverty did not exist—would not need them. But perhaps philanthropy is more than a second-best effort to fix or improve broken things.

What then are foundations for? If we were starting a democratic society from scratch, would we want foundations in something like the legal form in which they exist today?

I believe there is a case for foundations that renders them not merely consistent with democracy but supportive of it.

First, foundations can help to diminish government orthodoxy by decentralizing the definition and distribution of public goods. Call this the *pluralism* argument. Second, foundations can operate on a longer time horizon than can businesses in the marketplace and elected officials in public institutions, taking risks in social policy experimentation and innovation that we should not routinely expect to see in the commercial or state sector. Call this the *discovery* argument.

The argument from pluralism begins by identifying the special role of foundations in relation to the market and the state. It has long been understood that the commercial marketplace does not do well at providing what economists call *public goods*. These are goods that, like a well-lit harbor, are available to everyone if they are available to anyone; and that, like clean air, do not cost more when they are consumed by more people. The standard examples of public goods include national defense, education, arts, parks, and science. The essential point about public goods is that it is difficult or undesirable to block anyone from consuming them, even if they do not pay. Because private businesses like paying customers, public goods are under-produced in the commercial marketplace.

Instead, the state can provide public goods; such provision is one of its basic functions. In a democratic state, one simple way to predict what public goods will be produced is to look at which public goods are favored by a majority of citizens. If a majority of citizens prefer police protection and a minority prefers arts funding, then politicians will vote to fund the police and not the arts. Further, standard models of political behavior in a democracy predict that politicians will fund the public goods preferred by majorities at a level that satisfies the “median voter,” who sits in the middle of the political spectrum. For example, avant-garde art that offends is potentially of public value but likely preferred only by small numbers of people. So public funding of the arts may generate plenty of Norman Rockwell, but probably not avant-garde or radical art. (Hence the controversy over *Piss Christ*, for which the photographer, Andres Serrano, received a cash award partially funded by the National Endowment for the Arts.)

Foundations can yield more idiosyncratic results. They deploy private assets for public benefit, as judged by the donor. Foundations are thus especially well placed to fund public goods that are under-produced, or not produced at all, by the marketplace or the state. Because donors have diverse preferences about the goods they wish to fund philanthropically, foundations can be a source of funding for the minority public goods or controversial public goods that a democratic state will not or cannot fund.

Foundations thus partially decentralize the definition and production of public goods. In a pluralistic democracy, people have diverse preferences about what kinds of goods to supply through the direct expenditure of tax dollars. Powered by donor preferences and free from the accountability logic of the market and democratic state, foundations can help to provide a welcome pluralism of public goods. The diversity of goods supplied by foundation grantees helps to create an ever evolving, contestatory, and diverse arena of civil society. Such decentralization tempers government orthodoxy.

This idea is not novel. It can been seen, for example, in an opinion of Justice Lewis Powell’s in a 1983 case involving whether Bob Jones University, a religious and nonprofit university that had banned interracial dating, should be permitted to keep its tax exempt status if it chose to reject a compelling government interest such as ending racial discrimination. Powell joined the majority in conditioning tax-exempt status on nondiscriminatory racial codes, but rejected the idea that the primary function of a tax-exempt organization is to enact only government-approved policies. For Powell, the provision of tax subsidies for nonprofits, including presumably foundations, “is one indispensable means of limiting the influence of government orthodoxy on important areas of community life.”

Foundations ideally take on the long-run, high-risk policy experiments that no one else will.

The argument from pluralism turns foundations’ lack of marketplace and electoral accountability from a defect into an important virtue. Foundations are free, unlike commercial entities, to fund public goods because they need not compete with other firms or exclude people from consuming the goods they fund. And they are free, unlike politicians who face future elections, to fund minority, experimental, or controversial public goods that are not favored by majorities or at levels above the median voter.

Do we need the specific institutional form of the foundation in order to decentralize production of public goods and curtail government orthodoxy? Perhaps not. Perhaps individual donations to favored nonprofit organizations would supply a good portion of the desirable decentralization and pluralism. Maybe foundations—especially ones that can exist in perpetuity—are not needed for pluralism of public goods.

I wonder, for example, about the boom in small foundations. The number of foundations with less than $1 million in assets nearly doubled from 1993 to 2010, and these foundations rarely have a paid staff, almost never give away more than $50,000 in a year, and function more or less as the charitable checkbook of wealthy families. These families could accomplish the same outcome, the same public benefit, by simply writing a check or using a donor-advised fund rather than setting up a foundation as the vehicle for their philanthropy. This approach would avoid the overhead expenses that foundations require and that cannot be counted as public benefits. Perhaps there should be an asset threshold, say $10 million or $50 million, for foundations.

Moreover, even if foundations do help to decentralize the provision of public goods, won’t the resulting pluralism have a plutocratic, not fully democratic, cast? The minority-supported, experimental, or controversial public goods funded by foundations will represent the diverse preferences of the wealthy, not of the wider citizenry. I see no way to avoid this conclusion. While wealthy and poor people tend to give the same percentage of their incomes to charity, in absolute terms, the wealthy have much more to give. Does this mean that we should eliminate foundations? I do not think so. Perhaps we should change tax laws to reduce the tax-subsidized aspect of foundation activity. But a plutocratic tempering of government orthodoxy may be better than no tempering at all.

The pluralism argument provides a plausible, if not definitive, case for foundations as democracy-supporting institutions. But foundations supply more than diversity. They also fuel innovation.

Let’s say a democracy wishes to advance the general welfare or pursue the aims of justice, but democratic representatives do not know the best means for achieving such aims. For instance, what kinds of policies will best promote educational opportunity and achievement? Some believe universal pre-school is the answer, others a better school finance system, others better and more pervasive educational television, and still others online learning. Or consider environmental policy: What kinds of changes will reduce carbon emissions with the lowest cost to economic growth?

To answer these questions, a democratic society—recognizing that its leaders are not all-knowing, that reasonable disagreement on the best means to pursue just ends is likely, and that social conditions are always evolving—might wish to stimulate experimentation in social policy so that better and more effective policies at realizing democratically agreed upon aims can be identified and adopted. Moreover, this need for experimentation is never ending. In light of constant change in economic, cultural, technological, and generation conditions, the discovery process is, in ideal circumstances, cumulative, in contributing to society a storehouse of best, or simply very effective, practices for different contexts and shifting priorities. Foundations can be one device—federalism may be another—for this important work of discovery and experimentation.

And when it comes to the ongoing work of experimentation, foundations have a structural advantage over market and state institutions: a longer time horizon. Once more, the lack of accountability may be a surprising advantage. Commercial entities in the marketplace do not have an incentive structure that systematically rewards high-risk, long time horizon experimentation; they need to show quarterly results. Similarly, public officials in a democracy do not have an incentive structure that rewards high-risk, long time horizon experimentation; they need to show results quickly from the expenditure of public dollars in order to get re-elected. In contrast, foundations are not subject to earnings reports, impatient investors or stockholders, or short-term election cycles.

Foundations, answerable only to the diverse preferences and ideas of their donors, with a protected endowment permitted to exist in perpetuity, may be uniquely situated to engage in the sort of high-risk, long-run policy innovation and experimentation that is healthy in a democratic society. Some foundations experiment in just this mode: seeking, as the Gates Foundation does, the development of medicines for poor people; seeking, as the Hewlett Foundation does, innovations to address climate change.

And what comes of a foundation-funded innovation after it has been evaluated? Failed innovations and experiments die, though society has presumably learned something from the failure. Others may take up and modify the failed experiments and generate positive results.

From the perspective of a foundation, successful philanthropic giving consists not in funding social innovations and then sustaining the most successful of them forever. Because the assets of even the largest foundations are dwarfed by the assets of the marketplace and of rich states, success consists in seeing proven policy innovations “scaled up” by private firms or by the state.

The greatest accomplishments of American foundations fit in this model. The creation of public libraries, the funding behind the Green Revolution, the development of Pell Grants in higher education, the coordination of a national 9-1-1 emergency response system, the emergence of micro-lending—all are the result of foundation-funded innovations brought to scale by either firms or the state. Carnegie successfully stimulated interest in public libraries, which over time generated demands for state and local government funding. The Ford Foundation helped to fund Nobel Laureate Muhammad Yunus’s Grameen Bank, the success of which brought many commercial banks into the micro-lending industry.

In short, unlike business and the state, foundations can “go long.” They can be the seed capital behind innovation in effective social policy in a democratic society. This, I believe, is the stronger argument on behalf of foundations.

Notice, however, that the foundations capable of providing sufficient risk capital for policy innovation have significant assets, and likely have a professional staff able to manage and disseminate its learning. The small family foundation that gives away less than $50,000 a year is not in a strong position to carry out such a task. Here is another reason for concern about the growth in small foundations and another reason for considering a high minimum of assets before being permitted to set up a foundation.

**• • •**

**The Performance of Foundations**   
How well do foundations in the United States perform when measured against the vision defended here? Are they good at fostering pluralism and experimentation? A rigorous assessment is beyond the scope of this argument, but there is no shortage of doubters.

Some prominent foundation observers, including many who are friends and advocates of foundations, believe that foundations are underperforming. Former Atlantic Philanthropies President Joel Fleishman, for instance, thinks that foundations would do their work better if they were more transparent and risk-taking. Others, such as Waldemar Nielsen, a prominent author on the subject of philanthropy, have challenged foundations’ support for innovation, arguing that foundations are more frequently on the “trailing edge, not the cutting edge, of change.” Peter Frumkin, Paul Brest, and Hal Harvey have argued that foundations operate too often without a strategy or theory of social change, and are instead vehicles to express the preferences and fancies of their endowers.

Perhaps these critics are correct. If so, then so much the worse for foundations. My aim is not to defend their actual behavior, but to identify the right standard. My point is that the peculiar institutional form of the foundation can have a role in a democratic society in spite of their plutocratic power.

The case for foundations I provide here does not suggest that foundations are actually performing well. What is clear is that *they are performing*, and at increasing rates. Given their explosive growth, the concern about plutocracy is real. Learning more about their performance, and judging it against the standards of fostering pluralism and encouraging discovery, is therefore an urgent task.

*This forum is part of an* [*ongoing collaboration*](http://www.bostonreview.net/about/StanfordEthicsCenter/index.php) *with the Bowen H. McCoy Family Center for Ethics in Society at Stanford University. This year’s theme is the ethics of wealth.*

Post this page to: [del.icio.us](http://del.icio.us/post)[Yahoo! MyWeb](http://myweb2.search.yahoo.com/myresults/bookmarklet?t=&u=http://www.bostonreview.net/BR38.2/ndf_rob_reich_foundations_philanthropy_democracy.php)[Digg](http://digg.com/submit?phase=2&url=http://www.bostonreview.net/BR38.2/ndf_rob_reich_foundations_philanthropy_democracy.php&title=)[reddit](http://reddit.com/submit?url=http://www.bostonreview.net/BR38.2/ndf_rob_reich_foundations_philanthropy_democracy.php&title=)[Furl](http://furl.net/storeIt.jsp?t=&u=http://www.bostonreview.net/BR38.2/ndf_rob_reich_foundations_philanthropy_democracy.php)[Blinklist](http://www.blinklist.com/index.php?Action=Blink/addblink.php&Description=&Url=http://www.bostonreview.net/BR38.2/ndf_rob_reich_foundations_philanthropy_democracy.php&Title=)[Spurl](http://www.spurl.net/spurl.php?title=&url=http://www.bostonreview.net/BR38.2/ndf_rob_reich_foundations_philanthropy_democracy.php)

**Comments**

**1 |**

**Replace the Charitable Deduction with Charitable Jobs**

Although more than two thirds of Americans give generously without itemizing deductions some modest reduction in charitable giving can be expected from those who itemize lost their deduction for charitable giving. Tax policy has resulted in a 70% loss of wealth for 50% of the population (the poor and lower middle class) between 1995 and 2010. Between 2000 and 2010 the nonprofits (excluding churches which do not report to the IRS) had a 75% gain in wealth. These nonprofits now have seven times the wealth of the poorer half of the country. The larger public charities such as universities and hospitals experienced enormous gains but did not reduce fees. They were also further subsidized by additional taxpayer funded health and education benefits.  
Considering the interplay between poverty and high unemployment it is difficult to justify taxpayer support via the charitable deduction for removing investment in private job creating business and giving it to nonprofits which do not pay taxes. The shifting of $2 trillion over the last 10 years has the unintended consequence of eliminating millions of private sector jobs and adds to the cost of safety net programs.  
At the risk of restoring hope in the American dream it may be worth considering government paid part time internships with local government, school districts and nonprofits willing to train and mentor any adult in need of a job. Consider that the $40 billion saved by the elimination of the charitable deduction could fund 2,000,000 jobs at $350 a week. A PhD in need of work might work only one day for the $350 and a telephone receptionist might need to work 4 days for the same $350. The salary and benefits for the positions would be adjusted sufficiently below private salaries to encourage a shift from public support to private sector. Most nonprofits would gain from the free labor and continued participation would require a showing of helping workers transition into private jobs. Admittedly this of course would tend to disadvantage nonprofits with political agendas and interests in foreign causes.

*— posted* 03/25/2013 at 22:00 by **Eugene Patrick Devany**

**2 |**

**Professor**

The interesting question here is not why foundations exist. The interesting question is why we allow individuals to get rich. Communism did not allow that but capitalism does. So if we allow people to get rich what should happen to that wealth? --you can keep it, tax it or give it away. Giving it away seems to have been an American invention -- while not completely -- but for the most part. Of course all the critics never ask the question why we allow these people to make money in the first place. Maybe if we outlawed making money we would not have to worrry about philnthropy.

*— posted* 03/26/2013 at 03:01 by **Zoltan Acs**

**3 |**

**RE Professor**

You state that "Why do we allow individuals to get rich?" Let me ask you how many inventions and efficiently run institutions were there in the Soviet Union, Cuba and pre 1990 China? Note that the Soviet Union collapsed, Cuba only survived off the Soviet Union and now Venezuela, China had to adapt to capitalism in order to survive....

*— posted* 03/26/2013 at 17:37 by **Evil Capitalist**

**4 |**

**donor intent**

What happens when the officers of the foundation decide to ignore the intent of the donor? There is no avenue to enforce donor intent.

*— posted* 03/26/2013 at 18:05 by **Doug M**

**5 |**

**The Power to Tax is the Power to Destroy**

So many wrong things have been said about taxation and tax-exemption that it is comedic to attempt to correct them in one fell swoop - but here is a small attempt. Taxation is something that takes from someone who legitimately possesses - the state does not have a pre-existing claim to the revenue, prior to individual possession.   
Secondly, tax exemption is not about encouraging a behavior - it is about protecting a broad class of practices from destructive government (including democratic) action. Religion is exempted broadly because if it were not, taxes would be used to destroy unpopular religious practice. Charity is often religious. Education is similarly exempted, not because it is popular and needs encouragement, but because it could be unpopular and needs protection. The existance of objection is paradoxically proof of this point.

*— posted* 03/26/2013 at 19:35 by **BenK**

**6 |**

Do policy wonks like Dr. Reich belong on the public dole taking tax money from working class people for their payment.   
  
If Dr. Reich knew what he was talking about he would start a company that made a profit and hire people. Of course Reich hasn't done this. He does the exact opposite. He is just another ivory tower parasite living off the tax money of people who go to work every single day.   
  
Prove you know what you are talking about Dr. Reich. Start a business, make a profit, and hire some people into the jobs you create.

*— posted* 03/27/2013 at 05:44 by **Dave Thomas**

**7 |**

This was the most painfully misguided and flat out wrong articles I've ever ready. I can't even believe this nonsense got published. Clearly, Dr. Reich is better suited to work at Dunder-Mifflin than speculating or educating on public policy or philanthropy.

*— posted* 03/27/2013 at 18:23 by **Dia Lacina**

**8 |**

foundations must make their 990-pf forms available to the public, and those documents (easily available online) have extensive information on foundation investments, expenses, and grants.

*— posted* 03/28/2013 at 02:04 by **jpe**

**9 |**

"The assets of the Gates Foundation and a separate Gates Trust, which holds wealth donated by the Gates family and Buffett, together total more than $65 Billion. If the combined entities were a nation, it would be 65th on the world GDP list"  
  
No, it would not. This comparison is a false comparison of a "stock" - the asset value of the foundation - and a "flow" - the annual GDP of a country. A relevant comparison would be the foundation's annual income - likely to be around 5% to 10% of its assets - to GDP. Alternately, one could compare the foundation's assets to the assets of a nation, which is many multiples of GDP.   
  
This mistake is a shockingly simple confusion of the basic accounting distinction between a balance sheet and an income statement. A man who writes books offering economic policy advice for the nation doesn't appear to have a basic understanding of what national accounts mean.

*— posted* 03/28/2013 at 06:32 by **Dave**

**10 |**

**990 pf**

990 pf appears only to have basic accounting information, and no substantive information about a foundations activities.  
  
Here is an example:  
  
http://990s.foundationcenter.org/990pf\_pdf\_archive/562/562618866/562618866\_201112\_990PF.pdf

*— posted* 03/30/2013 at 05:09 by **990 pf**

**11 |**

**Anti Government, anti tax, anti-Reich...**

Dude, this article doesn't even mention taxation of working class people. In fact, he is talking about the uber rich, something none of us will be. You really want to live in a world where roads cost 10 thousand dollars a year to use, school, health care, and everything doable is for the highest bidder only? Markets don't give a shit about you. The government belongs to you, the public, not just the corporations, the wealthy lobbyists. Our taxes should be going back to us through the public good. But back to this article. Foundations are the wealthy's way to feel good about themselves, giving back a tiny bit to the society that enabled them to get rich, namely us hard working people.

*— posted* 03/31/2013 at 03:16 by **Sanity101**

**12 |**

**Assistant Professor**

Dr.Reich's comments are appreciated simply because philanthropy, especially institutional philanthropy in the case of foundations, should not get a free pass and should be subject to criticism like anything else run by human beings. In this case the stakes are high if foundations are given their status based on the provision of a social good and with expectation to fill gaps left by government and business. We know that the mandatory, annual payout has remained at 5% of assets since 1969 and that the vast majority of foundations treat that as the maximum instead of the minimum, with some including administrative expenses in their 5%. We also know their support of arguably the most needy and marginalized populations is slim at best (see National Committee for Responsive Philanthropy's reports on this subject). Lastly, they operate in a largely unregulated environment and at times appear accountable to no one. We might logically conclude that organizations that hold resources and operate in an unregulated environment are poised to take risks, yet they appear risk averse in certain matters. They'll invest their assets in the stock market, mutual funds, bonds and hedge funds to grow their assets to be able to fund important causes and remain perpetual, yet the risk taking seems to slow down with social issues. They typically do not allow, incentivize or reward experimentation which includes trial and error. This is counter intuitive with the fact that they fund organizations expected to address complex social issues that have remained with us for centuries. I have personally encountered several whom state on their web site they fund certain things and/or absolutely do not fund other things, and then after checking their tax return forms I see that is simply not true. Integrity is compromised when action does not match rhetoric. These admittedly are generalizations, and there are exceptions we should turn to and hold up as models of excellence where risks are taken (Robert Wood Johnson, Annie E. Casey), marginalized populations and/or advocacy are supported (Woods Fund), those that give beyond their 5% (Lilly Endowment), and those that prioritize addressing issues now, spending down instead of remaining in perpetuity (Atlantic Philanthropies, Dyer Ives and eventually Bill & Melinda Gates). The Center for Effective Philanthropy’s Grantee Perception Study involves foundations desiring to improve how they work with their grantees, and many participants have changed their policies, procedures and improved such relationships. There are foundations doing amazing work that has impacted our society. Family foundations make a good case for perpetuity which is so that family generations can continue their values, beliefs and giving. And, in full disclosure, my current project which is an educational documentary on philanthropy, is funded in part from foundations. I am deeply grateful for their support during a period when other needs exist. However, there is much work to be done in moving these issues forward. James Madison reminded us in Federalist Paper #10 that with freedom comes factions, therefore requiring checks and balances. Philanthropic giving is part of our democracy, as we are free to give to whomever we want and for how much we want. The question is how we can balance making foundations more accountable while not compromising their freedom. I hope Dr. Reich's article will contribute to advancing critical dialogue on the role of foundations in our society.

*— posted* 04/01/2013 at 15:23 by **Salvatore Alaimo**

**13 |**

It would be nice to get a citation for the table showing the growth in foundation creation. By my math, the 2010 total should be lower than the one reported here: 88,439.

*— posted* 04/05/2013 at 19:33 by **KW**