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## *Foundations in the United States*

As symbols and embodiments of private power, religious authority, modernism, and capitalism, America's philanthropic foundations have always attracted strong views. Critics object that foundations impose the arbitrary will of the "dead hand" on the pressing needs of the present; that they give unearned weight to religious orthodoxies—or that, by holding substantial assets, foundations violate a religious injunction to accept that "God will provide"; that they seek to remake social institutions in accord with a standardizing ambition that ignores tradition and popular preference; that they reinforce vested social and economic interests; that they provide cover for the secret, undemocratic ambitions of governments; and that they are the wasteful playgrounds of and for the rich.

Other critics reject such critiques and praise foundations for their potential to do great things—but complain that they do not do the things that a particular critic prefers. Or that they do approved things in ways that are ill-considered and ineffective.

American foundations live with controversy. Facing harsh and contradictory attacks, foundations often respond cautiously, blandly, and with copious amounts of information that is often vague and incomplete.

Whatever their overall view of American foundations, most writers work from a common but incomplete, and even mythic, understanding of foundation history. Philanthropic foundations, it is usually said, first appeared after the Civil War—anticipated by the Peabody Education Fund, modernized through writings by Andrew Carnegie and John D. Rockefeller, and made important by large monetary gifts from a number of foundation-creators between 1900 and 1920. Endowed with fabulous wealth and led by exceptionally well-connected

administrators, American foundations did extraordinary things and can rightly point to remarkable achievements. Described as secular and committed to science, it is said that they launched whole classes of institutions, backed far-reaching social movements, and gave direction to government policy in many fields, and that they have continued to do all this. Much of this accepted story is a myth, however, as we will show in the following chapters when we examine the historical record of American foundations and look at the present.

America's foundations first appeared in the wake of the American Revolution and played important roles throughout the entire nineteenth century—including key roles in building the nation's "mainstream" Protestant denominations. Carnegie and Rockefeller did not invent the American foundation, though their funds did do remarkable things, especially in the first three decades of the twentieth century. And the relative position of the American foundation changed dramatically after World War II, as incomes rose to hitherto unimagined levels and as government spending on health, education, and welfare—the chief objects of foundation giving—soared. For several postwar decades, foundations struggled to understand what they could do as the rise of other forces reduced their leverage. From the 1990s, we venture to conclude, foundations have come to accept a new place for themselves.

With this book we set out to enrich the discussion of foundation policy with a historical perspective. We think it worthwhile to test the adequacy of the generalizations so often advanced to justify calls for change in American foundations. We also think that historical studies are more credible if they make their terms clear and explicit. A more accurate understanding of the development of American foundations will, we believe, provide a more reliable basis for policy. Specifically we ask, What have American foundations contributed to our country—and to our democracy? What have they contributed to particular fields? How have they changed, grown, and adapted as new circumstances have emerged over the decades? Where and in what fields have they been most active?

Historians and social scientists have answered some of these questions. Relying on their work and on both historical and current evidence that we have developed, we believe we can provide answers. And we hope to encourage other researchers to take current foundation realities seriously and to consider how they came to be. Most generally, we ask what difference has the foundation, as an institution, made to the United States?

## **Foundations Today: Diverse Purposes, Many Sizes**

America's grantmaking foundations—numbering more than 76,600 in 2011 and worth \$646 billion in assets—have grown rapidly over the last two decades despite the dot-com bust of 2000 and the Great Recession following

the financial crisis of 2008. Grantmaking foundations differ considerably from state to state, and local foundations are quite active in most metropolitan regions across the United States. Foundations have grown so numerous, and so diverse in size and in purpose, that it has become impossible to describe their contributions in a single set of phrases or to provide a single set of numbers to measure their impact.<sup>1</sup>

While their promise makes them important, it is wealth that makes foundations possible and impressive. The funds they donate add up: according to the Foundation Center, in 2011 American foundations gave away nearly \$47 billion.<sup>2</sup> Yet despite the attention their wealth attracts, American foundations are much smaller than is often assumed. In recent decades foundation gifts have run to about 8 percent of asset values. Assets first seem to have reached a level of at least 2 percent of the value of all outstanding U.S. common stocks in the 1920s, and since the 1950s assets have ranged from 3 percent to 4 percent. Because foundations have always held bonds, land, and other assets in addition to shares of corporate stock—and because foundations did not have to report their assets fully until the late 1960s, estimates for decades before the 1970s can only be suggestive.<sup>3</sup> Foundation wealth has never been sufficient to influence the entire U.S. economy, and in recent decades foundation assets have been surpassed by the funds held as endowment by universities, medical research institutes, hospitals, museums, and other charities.<sup>4</sup> Although their wealth has declined sharply in relation to the other resources engaged in their fields of work, grantmaking foundations continue to hold sums large enough to make a difference. Sums, we hasten to add, that are strongly concentrated in the largest foundations. In 2006 the 2 percent of all foundations whose assets topped \$25 million employed essentially all of the professional foundation staff and held three-quarters of all foundation assets.<sup>5</sup> The 100 largest foundations, with assets in 2009 ranging from \$564 million to \$30 billion, held more than one-third of all foundation assets.<sup>6</sup> Many of the best studies of American foundations (like most of the best studies of universities, government agencies, or business firms) have understandably focused on the small group of very large cases.<sup>7</sup>

Size certainly matters. The 100 largest foundations whose 2011 assets exceeded \$669.86 million (let alone the ten or twelve foundations whose assets exceeded \$5 billion) clearly attract much more attention and arouse higher expectations than the 96 percent of foundations that give away less than \$500,000 a year. More than half of all foundations have less than \$1 million in assets and give away less than \$80,000 a year; most of these operate more as the charitable checkbooks of generous families than as independent institutions. Altogether these smallest funds hold less than 3 percent of all foundation assets.<sup>8</sup> Community foundations—and related forms such as supporting foundations that take in numerous gifts of varying size—constitute the fastest-growing segment among

American foundations. Some community foundations and a few supporting foundations are among the largest of all grantmakers. But as “public charities” that continuously raise money as well as give it away, these entities operate under distinctive and somewhat less restrictive regulations. Even when they are very large, most community foundations operate more as charitable banking institutions for their donors than as unified civic actors on their own account.<sup>9</sup>

Foundations vary enormously in size. We focus primarily on larger foundations, though we also consider smaller foundations where possible. The definition of what constitutes a “larger” foundation has changed over time and depends on the field or topic, but we have typically focused on the 100, 500, or 1,000 largest foundations in existence at a given time or on the 100 or 500 largest grants. We are mostly concerned with the 3,000 U.S. grantmaking foundations that have paid staffs.<sup>10</sup>

Although a few foundations hold the bulk of foundation wealth and attract the most attention, compelling reasons exist to cast a wider net, particularly because a single set of laws and regulations applies to small and large foundations alike. Yet it is difficult to find good systematic information on smaller foundations; our own investigations have certainly lacked sufficient resources to undertake such a study. Every year, thousands of Americans create foundations or donor-advised funds or give money to community foundations. Most of these foundations and funds involve less than \$1 million; each year only one or two of them exceed \$500 million. Every day, regulators, judges, legislators, fund-seekers, journalists, and neighbors critique and evaluate foundations. But regulators have few resources and must focus their attention on egregious and controversial cases. When occasionally a foundation gets into publicized trouble, more often than not it is a smaller, more obscure one, but two of the most careful analysts in the field have concluded, “We really do not know the extent of abuse in small foundations.”<sup>11</sup>

Foundations are neither unique to the United States nor uniquely American. Since ancient times, and across many cultures, substantial assets have been set aside for specific charitable and religious purposes.<sup>12</sup> Muslims preserve resources for religious and religiously prescribed social welfare and educational activity through traditional “vakif.”<sup>13</sup> Foundations played major religious and charitable roles in medieval Europe and the Ottoman Empire. Foundations became, as elements of the *ancien régime* and as patrons separate from the national state, targets of the French Revolution.<sup>14</sup> In several European countries, foundations and trusts did emerge during the nineteenth century as significant underwriters of science, culture, and welfare. In Britain they helped define the need for reform in the fields of housing and social welfare; in Italy they helped advance the causes of literacy and science as the nation slowly became unified; in Germany they offered responses to social needs and did much to build great universities and cultural institutions. But in Europe and elsewhere during the early and

middle decades of the twentieth century, many foundations saw their endowments erased by economic and political crises or by the hostility of some governments to independent centers of initiative. This was true not only in Germany and Poland but also in England, where governments redefined the purposes as well as the investment policies of foundations.<sup>15</sup>

New and revived foundations, such as Stephen Batory in Poland, Fritt Ord in Norway, Bosch and Mercator in Germany, the King Baudouin Foundation in Belgium, and the *Compania di San Paolo* in Italy have contributed to the cultural vibrancy of postwar Europe and also to the development of civil society and international engagement in postcommunist countries and throughout the expanded European Union. Today, notable groups of foundations exist in Australia, Canada, Germany, the United Kingdom, Scandinavia, Italy, the Netherlands, Spain, and Japan; recent policy developments encourage their proliferation in nations as diverse as France, Brazil, Qatar, Singapore, and even China.<sup>16</sup> Yet the United States stands out. In no other modern society are grantmaking foundations more numerous. Nowhere are they so prominent. Nowhere have foundations enjoyed such sustained autonomy for such a long period of time.

### Defining Terms: “Charity” and “Philanthropy”

To determine what difference foundations have made to the United States we must begin by defining terms.<sup>17</sup> This is a more complicated task than we might assume, because key terms are used in different ways in different contexts. In legal contexts where some terms are of critical importance, meanings have emerged through a long history of judicial rulings, legislation, and regulation. Common parlance shapes the meanings of many terms in ever-changing ways. We treat some technical matters of definition in a note in appendix A, but some questions about the meanings of ordinary words call for some discussion here.

United States law defines the words “charity” and “charitable” in special ways; critics who rely on common understandings often employ these words in ways inconsistent with their American legal definitions. Current federal tax law defines “charity,” as we noted in the preface, in broad ways to include religious, educational, scientific, literary, safety-testing, and cruelty-preventing purposes.<sup>18</sup> The Internal Revenue Service also notes, regarding “exempt purposes,” that the “generally accepted legal sense” of “the term *charitable*” includes “relief of the poor, the distressed, or the underprivileged; advancement of religion, advancement of education or science; erecting or maintaining public buildings, monuments, or works; lessening the burdens of government; lessening neighborhood tensions; eliminating prejudice and discrimination; defending human and civil rights secured by law; and combating community deterioration and juvenile delinquency.”<sup>19</sup> Congress, the courts, the U.S. Department of the Treasury, and the

individual states use these broad definitions to determine whether a foundation or an organization enjoys exemption from income tax, property tax, or sales tax; whether donors to the organization can count their gifts as charitable in calculating their own taxes; whether an organization or its employees enjoy any form of “charitable immunity”; and whether a foundation’s board has acted properly in approving grants, making investments, dealing with suppliers, acknowledging donors, or expressing views on questions relevant to politics.

Much commentary and criticism uses the word “charity” in ways shaped by nonlegal contexts. Most important are religious uses that continue to have a powerful influence, not only among professing Christians but also through common English-language phrases. Until the middle of the twentieth century, most writers on charity in the United States took for granted that a very large share of their readers had learned English in considerable part in Christian settings, so it is useful to take these historical contexts into account. One of the most frequently discussed passages in the King James version of the Bible, for example, is the translation of 1 Corinthians 13, in which the apostle Paul discusses “charity” in challenging terms as the greatest of “spiritual gifts.” It says in part:

And though I bestow all my goods to feed the poor, and though I give my body to be burned, and have not charity, it profiteth me nothing.

Charity suffereth long, and is kind: charity envies not: charity vaunteth not itself, is not puffed up, Doth not behave itself unseemly, seeketh not her own, is not easily provoked, thinks no evil, Rejoyces not in iniquity, but rejoices in the truth:

Charity never fails: but whether there be prophesies, they shall fail; whether there be tongues, they shall cease; whether there be knowledge, it shall vanish away. For we know in part, and we prophesy in part. But when that which is perfect is come, then that which is in part, shall be done away.

When I was a child, I spoke as a child, I understood as a child, I thought as a child: but when I became a man, I put away childish things. For now we see through a glass, darkely: but then face to face: now I know in part, but then shall I know even as also I am known. And now abideth faith, hope, charity, these three, but the greatest of these is charity.<sup>20</sup>

The Catholic Douay Bible uses almost the same English words: “And now there remain faith, hope, and charity, these three: but the greatest of these is charity.”<sup>21</sup> More recent translations generally replace “charity” in this verse with “love,” but these uses of “charity” are deeply embedded in English literature. Every year, many thousands of sermons and homilies quote these words about “charity” and reflect on their many meanings, which derive, at least in part, from the tradition restated by St. Augustine that love for God elevates Christians and

leads them also toward true love for humankind—a tradition embraced by the Latin word “*caritas*.” Adherents of other religious traditions have their own language for such discussions, and religious and nonreligious people alike debate the meanings.<sup>22</sup> Altogether, “charity” has meanings that are simultaneously technical, broad, and disparate in legal and religious contexts.

American, British, Australian, and Canadian notions of charity also owe much to the English Statute of Charitable Uses of 1601 (adopted just a decade before publication of the King James Bible), which served as a touchstone—often poorly understood—for legal reasoning about charity law into the twentieth century. The statute lists as examples of charitable purposes the following:

Relief of aged, impotent and poor people . . . maintenance of sick and maimed soldiers and mariners, schools of learning, free schools, and scholars in universities . . . repair of bridges, ports, havens, causeways, churches, sea banks, and highways, education and preferment of orphans . . . relief, stock, or maintenance for houses of correction . . . marriages of poor maids . . . supportation, aid and help of young tradesmen, handicraftsmen . . . relief or redemption of prisoners or captives . . . aid or ease of any poor inhabitant concerning payments of fifteens, setting out of soldiers, and other taxes.<sup>23</sup>

What nineteenth-century and later commentators overlooked were the facts that the Statute of Charitable Uses gave the power to investigate alleged offenses to the bishops of the established Church of England and that most of these charitable activities were at the time carried out by the established church. Until the end of the nineteenth century, British courts invalidated as “superstitious” charitable bequests to religious charities affiliated with religious communities other than the Church of England. Throughout these centuries, other British laws defined the charitable status of religious entities. We agree with legal historian Stephen Diamond that there “never was . . . a beginning point, a moment when the social compact was created” on a “clean slate, unfettered by outmoded, Old World, and feudal—or monarchical—institutions and practices.”<sup>24</sup> The Statute of Charitable Uses did not reflect such a beginning point, and neither did the American Revolution. But the revolution did bring a break with the British approach that established one religion—the Church of England—and to a greater or lesser extent “tolerated” other religions. After the revolution, the American legal environment granted greater deference to all religious traditions.

In short, notions of “charity” have been deeply shaped by religious belief and religious language, by religious conflict, and by efforts to create religious tolerance and even religious harmony. Notions of charity have also been shaped by the institutional structures that have held legal authority to oversee charitable activity, to protect charitable assets and direct them to socially approved

purposes. And they also have been shaped by the idea that those who bestow charity are owed deference by those who receive—and by protest against such notions as implying falsely that inequality is divinely ordained. Further, they have been shaped by the idea that while giving can be a tool for establishing superiority and making clear who is a subordinate, it can also occur within a context of mutuality.

“Philanthropy” has an even broader range of meanings. It gained currency in the nineteenth century, in part because as a word based on the Greek word *philanthrōpos* (“loving people” or “love of humanity”), it seemed appropriate in nonsectarian and secular contexts and also in discussions of interfaith cooperation. Andrew Carnegie has been quoted often as saying that “indiscriminate charity” was “one of the serious obstacles to the improvement of our race” and that it would be “better for mankind that the millions of the rich were thrown into the sea than so spent as to encourage the slothful[,] the drunken[,] the unworthy.”<sup>25</sup> Carnegie, John D. Rockefeller, and others urged that giving should be what has come to be called “philanthropic” in specific ways—supporting well-considered innovation to solve social problems, developing exceptional talent, encouraging more effective practices—rather than “charitable” in what is repeatedly asserted to be an old-fashioned sense of “relieving immediate needs.” Yet no discussion of American foundations can avoid these highly contested terms, because they have long carried more-or-less specific meanings within the field. The contrast between relief-of-needs “charity” and well-considered “philanthropy” deserves serious critical scrutiny. However, it should be noted that this broad and simple distinction obscures another ancient and still-vital use of foundations and that is to control resources for highly valued activities intended to provide public benefit consistent with a donor’s values and wishes and in keeping with the law.

Many, if not most, American foundations today insist that they are “philanthropic,” in the sense that they thoughtfully seek important social change. When a foundation lives up to this standard, it might be acting as a social entrepreneur, an institution builder, a risk taker, or a conservator of values. Over time, have foundations become more entrepreneurial, more effective as institution builders, better at taking initiatives that are too risky for others? Because opinions differ widely as to what courses of action are ultimately “good” or are likely in a practical sense to produce desirable social change, we must also ask how foundations have changed their tactics as social entrepreneurs, institution builders, or risk takers. Additionally, have foundations proven significant as conservators of values, and if so, of whose? What values have donors sought to underwrite, and have they in fact made more efforts, or more effective efforts, to use foundations as instruments of control? Or have they contributed to changes in values—to the erosion of some values and to the protection, even the growth, of other values, religious or secular? Finally, what can be said of the use of foundations as



instruments for forging local consensus, for promoting local priorities, and for developing local institutions in communities across the United States?

## What Can Foundations Do? Law and Practice

Internal Revenue Service regulations make clear that a foundation is a legally established, autonomous, nongovernmental organization controlled by its own board. American foundations have acquired tax-exemption privileges if they adhere to changing restrictions. But it is important to recognize at the outset the importance of the basic right to exist. Most foundations are set up as corporations. As historian Pauline Maier reminds us, incorporation allows a group to create a lasting entity—to make binding rules for its self-government, to function in law as a single person with the right to hold property, and to sue and be sued in order to protect its assets—and to persist after the lifetimes of its founding members.<sup>26</sup>

Grantmaking foundations persist (at least for a certain time), but in an important sense they are incomplete institutions. Their activities are limited to holding, investing, and distributing money for purposes deemed charitable under U.S. law. They do not act themselves: they enable others to act. Foundations are charitable, but they themselves do not cure patients, conduct research, teach, reform, house the homeless, feed the poor, protect treasures, mount exhibitions or concerts, or conduct religious services.

So much is written telling foundations and the public what foundations ought to do that it becomes important to consider what foundations actually can do. This question can be looked at from two perspectives: that of a founder or donor and that of the larger community. Donors find in the foundation a legal instrument that expands their alternatives. Through a foundation a donor can reserve, protect, and invest funds and determine how and when they will be dispersed and for which charitable purposes. Foundations are not identical to philanthropy—they are not necessary to philanthropy, and only some philanthropic giving goes through a foundation. Instead of using a foundation, a donor could also make a gift to meet a crisis, to be spent immediately. Or a donor could give to an operating nonprofit organization (or its endowment) or to a government agency for a specific purpose, including use over time. Donors can also give to individuals. The availability of the foundation offers another possibility to the donor: to set funds aside to be held, invested, and given over time for specified or general charitable purposes.

The donor to an American foundation pledges that the gift will go to charity (and receives the associated tax benefits), but can become the dominant person in the group that later decides which particular charity will get the benefit and for what specific purposes. Whether the donor continues to be involved or not,

he or she can determine in advance the foundation's purpose or range of purposes, define how it will invest (subject to certain limitations), and set the rate at which funds will flow over time (subject under current law to a minimum rate of 5 percent of a moving average of assets each year). If the donor wishes a foundation to last indefinitely, he or she must accept that control will eventually pass on to others and that, while the donor can set the initial purposes and select the initial directors or trustees, future foundation boards—and changing circumstances—will eventually exert their own influences.

Once created, a grantmaking foundation can accomplish charitable ends only through grants to other institutions—or, in some very specific cases, through grants to individuals. By virtue of their incompleteness as institutions, foundations are of necessity deeply enmeshed in the fields they address and in the wider contexts of their times. Much recent writing on foundations emphasizes foundation autonomy and ways of ensuring that foundations get the results they seek. We note that foundations must rely on others; hence any assessment of foundation work must focus on the ways in which foundations interact with others who share their objectives—or who are indifferent to them or oppose them.

To identify the specific actions foundations can take and have taken over the course of American history, we start from the observation that because foundations have very limited resources in relation to the fields they address, they always seek leverage. A foundation can take the following actions:

—Support religious activities through grants to pay for religious services, prayers, rituals, study, teaching, outreach, missions, buildings, libraries, or furnishings and equipment.

—Pay for direct aid for the poor, including food, clothing, and housing. No known foundation has had sufficient funds to relieve the poverty of large numbers of people; what foundations have been able to do is to call attention to poverty and encourage others to recognize need.

—Provide direct support to advance education, research, writing, and creative work through scholarships, fellowships, recruitment, and/or resettlement of researchers, scholars, writers, and artists, research grants, publication grants, conference funding, mid-career fellowships, and the like.

—Create an effective process that confers honor, prestige, or opportunity on people whose achievements, views, or qualities are held worthy of emulation, for instance, through scholarships for people with special qualities, fellowships that confer prestige, prizes for work completed, and prizes for notable actions.

—Help create communities of people committed to particular purposes—whether upholding particular traditions, advancing professions, or working for change—through grants for advanced substantive or leadership training, conferences, meetings, travel, writing, or publication.

—Seek to shape public opinion by supporting studies intended to call attention to particular problems and by conferring honor and prestige on those whose actions are believed worthy of emulation—through fellowships and research grants; convening specialists and officials to share information, identify best practices, and develop new knowledge; and by funding gatherings, conversations, and career development of people committed to a particular approach or agenda.

—Seek to help inform government policies that address specific problems through fellowships and research grants, support for explanatory materials, convening specialists and officials, supporting demonstration projects, subsidizing personnel and other costs of policy study, or making grants conditional on public support.

—Grant funds that enable nonprofit organizations or government agencies to provide activities deemed “charitable” under U.S. law (methods include scholarships, fellowships, and other subsidies for students; grants for direct provision of health care; grants for the construction or purchase of new buildings or equipment; and subsidies for performances and exhibitions).

—Subsidize the creation of new or the reorientation and reorganization of existing service providers through subsidies for consultants or employees with specific assignments or through substantial grants to endowment.

—Promote economic development through mission-related investments and loans, revolving loan funds, research grants, grants for education and training, and funding for consulting services.

—Promote changes in public behavior through exhortation, praise, or subsidy as well as through study and advocacy of policy. Past and present foundations variously encourage thrift, productive work, care for the environment, respect for women, and civility—and discourage indulgence in smoking, drinking, and out-of-wedlock sex.

Foundations are about the investment as well as the giving of money, although this key point is generally neglected. Some foundations have always sought to contribute to society through their investment policies, including what are now called “mission-related” loans and investments, as well as through grants. Some of the earliest mission-related investments by American foundations helped young craftsmen establish their businesses or subsidized buildings used for charity or education. Foundations have also sought to promote local economic growth through their investments as well as their gifts. Because they are about investment, control, and change, foundations necessarily engage with time.

Donors can give not only through grantmaking foundations but in many other ways—to operating foundations, supporting foundations, and active nonprofit organizations that enjoy somewhat greater tax advantages than

foundations. Two questions arise: Do foundations have comparative advantages over other institutions? Have their advantages grown or declined over time?<sup>27</sup>

Concern with historical context and with the relation of foundations to time leads to additional questions. Foundations control the timing of grants. They have to consider when it makes most sense to start an initiative, how to support it as time passes, and whether to end support. Questions of timing arise whether a foundation is supporting an organization, a program within an organization, a specific action, or a continuing cause.

Because foundations always work through others, they also must consider the character of the fields they address and of the organizations they support, as well as relationships within fields and among organizations. Much can depend on the foundation's own relation with operating entities in its field, that is, on its reputation not only for wealth but also for understanding and judgment.

### Foundation Roles, Advantages, Weaknesses

As noted in *American Foundations*,<sup>28</sup> the literature strongly emphasizes two roles for foundations: relief of immediate needs (sometimes denoted as “charity”—language that conflicts with the use of that term in U.S. law), and “philanthropy.” Our studies have made it clear to us that both of these possible roles should be defined more precisely and that foundations very often play other roles that we designate as forms of “preservation and control.” These are general terms, but the generality is necessary if we are to specify at the outset a basic framework for considering the work of foundations over a span of 200 years. As we show in this book, foundations have changed dramatically over the course of U.S. history, and they continue to change. We also agree that foundations can be discussed in terms of the values they espouse—religious, intellectual, cultural, social, or civic—and that the leading sets of values have changed over time.<sup>29</sup>

“Relief of need” occurs when foundations pay for services or goods that benefit others, characteristically the poor or the disabled, within an existing framework. Writers in the field sometimes suggest that foundation gifts of this sort might “complement” or supplement tax funds and individual gifts or might “substitute” or replace them.

Philanthropy describes foundation efforts to create something new in one of three ways: “innovation” in social perceptions, values, relationships, and ways of doing things; “original achievement” in the arts, philosophy and religion, science, and the study of society; and “social or policy change” intended to foster recognition of new needs, bring new perspectives to the table, and encourage efficiency, equity, peace, and social and moral virtues of all kinds, including law and order or economic growth.

Preservation and control also can be viewed as taking three forms. Perhaps most common but usually neglected are the “preservation of traditions and cultures” and “asset protection,” whereby foundations hold and distribute funds intended to preserve and encourage valued beliefs and commitments. A variation of this last form of control might be described as the promotion of local infrastructure for education, the arts, and community services and recreational facilities—a role that can be described as “building out” the facilities of a community or region. Regional build-out emerges from our investigations as perhaps the most widely practiced role of American foundations. Critics of foundations, and some defenders, emphasize “redistribution,” the voluntary redistribution of wealth from the rich to the poor—a use of the foundation that some critics would make mandatory.

A number of authors have suggested that foundations have significant comparative advantages over other institutions. Foundations can be “social entrepreneurs” that identify and respond to needs or problems that are beyond the reach or interest of market firms, government agencies, and existing nonprofit organizations. They can be “institution builders,” using money and ideas to help establish sustainable organizations to meet unmet needs. They can serve as “honest brokers,” mediating conflicts and convening coalitions of individuals and organizations capable of action across existing sectors, communities, regions, and borders. They can also be “risk absorbers,” investing where there is great uncertainty and a return is doubtful. And they can act as “value conservers,” supporting practices, virtues, and cultural patterns treasured by donors but unsupported by markets or legislative majorities.

The literature also attributes to foundations disadvantages that deserve notice. The most cursory consideration makes clear that insufficiency is standard: foundations very often lack resources adequate to their proclaimed goals and too frequently fail to recognize their own limitations. Particularism (the inappropriate favoring of one group of beneficiaries) is often alleged, perhaps because U.S. law forbids discrimination on the basis of race or gender—though it also allows foundations to require that beneficiaries meet religious, geographical, or ability tests. Paternalism (the primacy of a foundation’s judgment over that of its beneficiaries), often combined with charges of elitism, is another complaint but also more difficult to identify. Critics object to foundation amateurism (the making of decisions by dilettantes who possess only a cursory understanding of the fields and issues they address); more than a few defenders of foundations instead celebrate amateurism as a useful counter to domination by an often narrow-minded technocracy.

Having identified these roles, advantages, and disadvantages, our study seeks to assess the degrees to which they describe American foundations over time and place.

## Foundations as Institutions: Creating Patterns of Behavior

Foundations are important not only because they hold substantial funds, but also because as social institutions—even as incomplete institutions in the sense emphasized above—they can make ideas and practices regular, routine, and almost solid. In daily life, institutions define realities. Empowered by the political institutions that give them their autonomy and authority, social institutions focus and direct resources, enhance or restrict the power of those who work through them, and shape the social environment.<sup>30</sup> Foundations can make a difference not only through grants, but also by influencing beliefs and patterns of behavior. A goal of this study is to determine when, and how often, American foundations have made institutional contributions of this sort.

In pursuing their widely varied charitable purposes, American foundations try to do much more than give away money: they seek to confer legitimacy and worthiness. Working in conjunction with tax authorities, judges, legal writers, accountants, religious leaders, pundits, and many others, foundations can put into practice divergent and changing ideas as to what is “charitable,” thereby giving ideas concrete expression. Foundations work to shape the actions of others both by granting money and by signaling that particular activities, purposes, and achievements are worthy of gifts and grants or of awards and prizes. Donors use foundations in these ways to pursue complex, sustained purposes.

In the ancient world, donors used foundations to memorialize their wealth and power and to win prestige by glorifying their cities, underwriting proper care for the dead, acknowledging some of the needs of poor girls and young women, and supporting temples and schools. Medieval foundations supported the saying of prayers, the study, copying, and preservation of sacred and ancient texts, rituals that symbolically represented the feeding of the poor, and the religious care of the sick and dying. Modern American foundations continue to do all those things, and they also reward heroism, good citizenship, writing on many topics, artistic endeavor, scientific and applied research, and innovation of many kinds. Modern foundations have also sought to encourage new social behavior; they have launched self-sustaining organizations and even reorganized entire fields of activity.

American foundations are often urged to make general contributions to society—to preserve religious and cultural beliefs and practices, to underwrite large programs of education and health care, and to redistribute wealth from the rich to the poor. But the most ambitious efforts require larger resources than even the largest foundations command.

Researchers have established some basic knowledge about the institutional achievements of American foundations. Foundation work does support religious traditions, extend educational opportunities, aid those who suffer from a rare disease, and advance particular artistic traditions. Foundations, like nonprofits

in general, do redistribute wealth in these ways—but their direct reduction of inequality is limited by their small resources. Overall, foundations redistribute money from those who have a great deal to those who have less, but they do so chiefly by supporting activities that benefit the public in general.<sup>31</sup>

Through the influence of existence and example, some foundations have promoted the spread of the foundation as an institution by encouraging the creation of new foundations and by giving seed money to new community foundations.<sup>32</sup> That individuals are able to give money to a foundation, or if their means are sufficient, to set up a foundation of their own, may actually increase the total sum available for charitable purposes.<sup>33</sup> It is possible to imagine policy arrangements that would pull wealth into tax payments rather than allow it to be placed in foundations. Assessing the likely effects of such policies is not an easy task, given the complexity of the American taxation and finance systems. But the most persuasive analyses conclude that much of the money that flows through foundations “would not find its way into the tax stream,”<sup>34</sup> because wealthy people would find ways to avoid taxes, to pass wealth on to heirs, and to shape tax policies.

It is clear that foundations, like the endowment funds of nonprofit organizations and of their supporting organizations, do make it possible to set aside funds for the long term. A frequent objection is that foundations reduce the amount of money immediately available for charity at any given present moment.<sup>35</sup> We would note, however, that while federal tax law calls for foundations to pay out 5 percent of the value of their assets annually, a careful recent study found an “average payout percentage of about 8.7 percent.” In practice, six of every seven foundations distributes more than the legal minimum.<sup>36</sup>

Some analysts argue for laws requiring higher payout rates and forbidding self-perpetuating foundations. Others stress the stability, diversity, and autonomy that foundations can provide for other institutions and for the ideas they promote.<sup>37</sup> Historically, foundations have been used to enhance the income security of those who devote themselves to valued but often less remunerative activities—religion, education, research, social service, nursing, and the arts. And they also enhance in a predictable and continuing way the opportunities available to students, children in foster care, the elderly, the sick, and those who seek access to the arts or to preserve the natural landscape. Large endowments also give foundations (and nonprofits) a degree of autonomy that allows them to contribute to the pluralism of American society.

Because they constitute independent sources of funds, foundations also complicate the direction of other institutions, especially nonprofit organizations and government agencies. A foundation’s board can reconsider a given grant program and shift funds, sometimes on very short notice, from one activity, organization, or field to another, regardless of the concerns or plans of the organizations

and communities they have supported in the past.<sup>38</sup> As the *Wall Street Journal* recently noted, donors can assure themselves that their gifts are used as they prefer in a variety of ways, by

parceling smaller gifts out over a set time, rather than giving a larger sum to an endowment . . . set[ting] up a gift as an annuity within a trust, overseen by a third-party trustee, who can decide annually whether the gift's intent has been met. Instead of endowing a professor's chair in perpetuity, a donor might provide financial backing to a single professor only for his or her lifetime, guarding against a successor who might drift from the subject matter the donor wants taught.<sup>39</sup>

A foundation—unlike an individual donor—can impose and maintain conditions of these sorts indefinitely, so long as the university or other beneficiary organization is willing to cede the demanded degree of control over its appointments and other actions.

Barry Karl, Stanley Katz, and other influential writers have showed how certain foundations, at certain times, did much to invent and establish substantial new institutions—most notably public education in the American South, public libraries, the modern research university, and the academic medical center.<sup>40</sup> Foundations, working with other extra-governmental forces, did do much to give the United States strong university and research capacities in the early decades of the twentieth century, when the federal and state governments did not see this as an appropriate task.

America's constitutional, legal, and political traditions have generally created and encouraged religious freedom and, more generally, have made possible multiple bases for initiative. Foundations fit nicely into an American polity characterized by checks and balances in the federal and state governments, the assignment of important powers to state and local governments, the separation of church and state, an exceptionally long history of autonomy for business corporations and nongovernment, nonprofit organizations, and a widespread preference for expansive notions of private property.

Autonomy and variety in purpose have always been fundamental to American foundations. American political traditions insist that donors have the right to use their wealth to advance a wide range of beliefs, virtues, practices, and innovations. Donors have committed to a wide range of concerns, from religion, education, and culture to health, social justice, and the advancement of sports, hobbies, and collecting. Foundations (like other charities) can commit to a single purpose, such as reducing poverty or subsidizing government; however, since the late nineteenth century state laws have encouraged them to support increasingly varied causes and values.



Foundations constitute one among many institutional structures that shape concerted public action. American legal and political ideas and arrangements, including the arrangements that support foundations, reinforce what historians and political scientists variously describe as “polyarchy” and “pluralism.”<sup>41</sup> This is a story that researchers in the American political development movement have ignored and that we think they should pursue. But there are reasons to think that it is a story from a specific and limited period in American history, and that is another question explored in this book.

For more than 100 years, American courts, regulators, and legislators have steadily agreed that foundations, including nonsectarian, general-purpose foundations, have a right to independent existence and indeed to favorable tax treatment, so long as they are not employed to increase the personal wealth of donors and their families and so long as they avoid party politics and devote their resources to the very wide range of “charitable purposes” described at the beginning of this chapter. The core rationale is that as long as foundations accept these broad limits, they contribute valuably to American freedoms and American pluralism.

In every era public opinion has limited the scope of initiative available to foundations. The acceptable range of views has changed over time, reflecting the fortunes and misfortunes of American history, yet it suggests a general trajectory. Like other charities, foundations encountered significant legal and political limits under slavery, during the Jim Crow era of racial segregation, and to some extent under wartime pressure to support the nation. Charities devoted to minority religious and cultural traditions long struggled against prejudice in public opinion as well as discrimination in law and legislation. But American charities have always enjoyed wide possibilities, possibilities that have expanded over the decades, even as federal regulation has to a considerable extent supplanted control by the individual states. In the United States, foundations like other charities justify their existence and their privileges—and, indeed, establish their legitimacy—not so much by reducing poverty or by relieving taxpayers of the expense of public facilities and services, as by enriching and strengthening America’s varieties of religious, cultural, educational, scientific, and policy analysis and by increasing the possibilities for innovation.<sup>42</sup>

Our leading hypothesis is that it is flexibility—the ability to remove funding from one beneficiary or entire field to another—that makes foundations distinctive.<sup>43</sup> By their actions, foundations establish or help establish realities, such as the grant-seeking process itself, the worthiness of certain ideas or achievements, the legitimacy of certain professions and disciplines, and the very existence of new, self-sustaining organizations, or on rare occasions entire sets of interacting organizations that others come to take for granted.

Overall, this book asks whether American foundations have over time shifted away from meeting immediate needs—or whether meeting such needs was ever their focus. Have they changed their emphasis on control? Have they put emphasis on more ambitious forms of philanthropy? If so, are they acting as social entrepreneurs? As institution builders? As risk takers and risk absorbers for other institutions? As value conservers? What have been their understandings of the possibilities of fundamental change—and how have their understandings evolved?