Trouble in Foundationland: Looking Back, Looking Ahead

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A report by Peter Frumkin

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Introduction

After a long day involving tedious proposal review, the conduct of lengthy site visits, and the writing of ever so carefully crafted rejection letters, the staff of America's largest foundations usually sleep well at night. After all, they are shielded from most of the vicissitudes that rattle the nonprofit world. There are no funding crises to resolve, no troublesome clients to handle, and no demands from funders scrutinizing and questioning the budget. While the life of the foundation worker is a relaxed and contented one, the field is quietly in the midst of a crisis. Congress has taken a fresh interest in the administrative expenses of foundations and even proposed a revision to the payout rule that determines the minimum level of distributions demanded of foundations. This new public scrutiny has sent shivers throughout the field, led foundations to mount an expensive lobbying effort to thwart any change to the current regulations, and generally put the field on the defensive for the first time in a long time.

The whole conflict over the administrative expenses of foundations started with an April 27, 2003 article in San Jose's *Mercury News*, which reported on the salary and retirement package of the James Irvine Foundation's recently retired president.[1] This prompted Senator Grassley, chair of the Finance Committee, to note: "Every dollar that featherbeds a foundation executive doesn't help a person in need.

You have to wonder how excessive executive salaries and retirement packages fulfill the vision of those who left their money to set up foundations." It was not long before others joined in their concern for money being spent on foundation salaries and overhead, especially at a time when foundation giving has slowed and when the amount of public funds available for discretionary social spending is dwindling. As legislation bearing on a broad range of issues related to charitable giving of all kinds was winding its way through Congress, the House introduced a bill (H.R.7)[2] which provided that the mandated minimum payout of foundations, set at 5 percent of the average monthly value of the endowment during the preceding year, be altered in one small way. It provided that administrative expenses no longer be counted as qualifying distributions and credited toward the payout minimum.

The ensuing political struggle over the payout question soon brought into the fray the Council on Foundations[3]— which argued against the measure on a number of different grounds, including that it posed a threat to the long-term ability of foundations to maintain the value of their endowments—and the National Committee for Responsive Philanthropy,[4] which for years has argued for higher foundation payout rates as part of its campaign for greater accountability and generosity in the foundation world. One of the strangest participants in the debate was the National Council of Nonprofit Associations, which actually came out against the measure (although all nonprofits could benefit from greater levels of funding) on the grounds that it was

premature and its potential effects inadequately analyzed.[5] The association argued that foundations deliver to nonprofits "research material, technical advice, and other services above and beyond monetary grants" and that penalizing foundations for spending charitable resources on staff was counterproductive.

As the debate unfolded in the press and in professional meetings, two developments were surprising. The first is that the foundation community never articulated a clear and compelling argument for expenditures on professional salaries rather than grants. To win over their critics, foundations needed to make the case that the grants they made were in fact more effective than they would have been without the presence of substantial staffs, particularly in the larger foundations. To make this argument, the foundations or their trade association should have come forward with concrete cases and illustrations of how the cost of foundation overhead and staffing expenditures was more than offset by an increase in philanthropic effectiveness. No such cost-benefit analysis was ever advanced, not even in a conceptual way. Instead, spokesmen for the foundation field fell back on overblown claims that the proposed changes would endanger the foundation community's long-term viability. The intellectual laziness of the field in the face of an important challenge was stunning.

The second surprising development was the silence of many nonprofit leaders in the middle of this important debate and the willingness of several nonprofit groups to actually speak out *against* the proposed change in the pay-

out rule. For a field that prides itself on its advocacy work and its commitment to the most needy, the spectacle of nonprofit leaders either backing the foundation world's arguments or simply sitting on the sidelines out of fear was remarkable. Faced with the prospect of increasing by billions of dollars the amount of foundation funds that reach nonprofits, most of the sector's leaders were simply trying to stay clear of the controversy or were cowering at the thought of offending their funders by speaking out. Of course, reasonable people can disagree about whether the change proposed in H.R.7 is wise. However, there is no reason why the issue should have elicited such thundering silence within the sector.

At this interesting and contentious juncture in the evolution of private foundations, it may be useful to reflect on the reasons the field has historically found itself in the public spotlight with a fair amount of regularity, how it has handled public criticism and regulation in the past, and what the likely result will be of Congress' current focus on the behavior of the nonprofit sector's most privileged institutions. In foundation philanthropy's complex history and mixed record, the issues of effectiveness and accountability have come up again and again. In many ways, the current debate over the payout issue obscures these two larger issues and reminds us that foundations have yet to resolve the core problems facing their field.

Part I.

Central Problems in Philanthropy Today: Effectiveness and Accountability

The very idea that there might exist "central problems in philanthropy" might strike some as odd. After all, philanthropy is a field in which foundations give freely to others, and it is hard to imagine why there would be any problems at all associated with the simple exercise of generosity. The philanthropic exchange linking foundations and recipient organizations can take numerous forms, but the basic structure of the relationship remains fairly straightforward. Foundations and recipients are joined in an act of giving and getting. Even though this voluntary transfer of resources seems simple, it can and does create a number of complex challenges for both sides, particularly when the amounts of money changing hands are significant and when the public needs to be addressed are substantial. Today, there can be little doubt that important problems lurk within institutional giving, and that leaders in the field have expended large amounts of effort and resources searching for solutions. At the core of the angst gripping philanthropy are two complex and enduring issues that have confronted foundations of all kinds: effectiveness and accountability.

It is hard to imagine a foundation, faced with the choice of "being effective" or "being ineffective" in its giving, con-

sciously opting for ineffectiveness. Donors engage in giving because they want to accomplish something—for someone else, for themselves, or for both. In all three cases, if being effective means achieving stated objectives, effectiveness is as close to a universal aspiration in the balkanized field of philanthropy as one is likely to encounter. The problem with this consensus is that it is thin and has little practical meaning. Foundations do not agree on how to define many philanthropic objectives, how to assess whether they have been realized, and, perhaps most important of all, how to use knowledge and experience to improve their effectiveness.

The second major problem in the field today is accountability. One of the nagging issues in philanthropy is whether foundations are ever held adequately accountable for their giving. The accountability issue arises in part from the tax deduction that donors receive for their giving, but it also is connected to the power donors have in philanthropy to use resources to enact agendas. Interestingly, the accountability issue is more pressing in some parts of the field than in others. For individual donors who operate quietly or who give only modest amounts of money, there are rarely groups complaining about access, transparency, and fairness. For large institutional donors, including private, corporate, and community foundations, the accountability issue is far more pressing. These donors face several organized and mobilized watchdog groups that do nothing but monitor and critique foundation practices. At the center of the accountability issue is the concern that the fundamental power asymmetry between donor and recipient makes it

very hard to create accountability systems appropriate for a field that now delivers billions of dollars a year.

Naturally, the two nagging issues of effectiveness and accountability intersect and interact with one another frequently. In the absence of sound and meaningful ways of assessing goal achievement and effectiveness, many foundations turn to measures of the quality of their grantmaking process and emphasize their transparency, clarity of purpose, and fairness. These procedural elements in grantmaking rarely speak to the core underlying issue of foundation performance, however. Effectiveness and accountability are ultimately joined at the hip. Unaccountable donors are seen as ineffective and ineffective donors are portrayed as unaccountable. Are there other important problems facing the field of foundation philanthropy? Of course there are. However, effectiveness and accountability loom particularly large.

Effectiveness

When thinking about philanthropic effectiveness, one of the first and most perplexing questions is whose effectiveness is at issue. One popular option is to define effectiveness in terms of the work done by those who receive philanthropic support. Under such a conception of effectiveness, a foundation would monitor and track the work of grant recipients, and do whatever is possible to increase the likelihood that these nonprofits succeed. Accordingly, for foundations, doing well comes down to picking good organizations to

support and then claiming some credit for the public benefits that arise from the work of others. This conception of effectiveness can be called "program effectiveness" because it focuses attention on the programmatic work of recipient organizations. This is not the only way to think of philanthropic effectiveness, however.

There is a second way to define the concept, which, instead of looking outward and assessing the performance of recipient organizations, looks inside at the quality of the grantmaking that is being done by a foundation. This second conception of effectiveness can be termed "mission effectiveness" since it points our attention to how well a foundation is doing at achieving its stated goals or missions. Mission effectiveness is not simply the sum of the programmatic effects achieved by nonprofits, but instead is related to the quality of strategy and level of execution achieved by a foundation. This is an extremely complex conception of effectiveness that raises a whole host of problems when it comes to measurement.

It is hardly surprising, therefore, that the foundation field today is very much focused on the first definition of effectiveness, and many foundations have invested heavily in evaluation in order to report on what has happened to their funds once they have been spent. One reason why program effectiveness is so much more appealing to foundations than mission effectiveness is that it casts the spotlight of evaluation outward and provides foundations not just with a buffer against criticism (both internal and external) but also with a set of well-established protocols, procedures, and

tools that can be used to carry out assessments. Armies of consultants and technical-assistance providers await the call of foundations to go out and measure the performance of grant recipients. Moreover, many foundations simply think of their ultimate impact in terms of what recipients accomplish and do not even raise the question of mission effectiveness.

Program effectiveness data are viewed by many foundations as more valuable and usable than mission effectiveness data. They can be used to either justify continued support of nonprofit organizations or to terminate support. They also can be used, in principle at least, to ensure some measure of rationality to the disbursement of funds, with more effective organizations receiving more support than organizations that are less successful at achieving social objectives. Armed with good data on which organizations are more effective compared to their peers, foundations are able to both use their philanthropic resources more effectively and guard against criticism that philanthropic decisions are based on something other than merit.

The problem with using program effectiveness as a tool to bring reason and fairness to philanthropy lies in the primitive and imprecise nature of almost all forms of performance measurement in the nonprofit sector. Even in those areas where performance data are present and usable (such as test scores for students in schools, job placement statistics for job training and employment service providers, and relapse rates for drug treatment centers), significant obstacles are still present. In very few cases do nonprofits attempt

to control for other factors that might influence program outcomes (such as how parents' education levels and involvement affect students' performance, how the state of the economy impacts the prospects of unemployed persons, and how many times drug users have attempted rehabilitation before achieving success). In short, almost all the performance data used in the nonprofit sector are incomplete, unreliable, and incommensurable. Because of cost considerations, measures of program effectiveness are almost never developed using formal experimental research designs (featuring control and treatment groups) and almost always have a number of assumptions embedded within them, which, depending on how these assumptions are or are not addressed, can and often do materially affect the conclusions of the evaluation. Regardless of these technical limitations, the concept of program effectiveness has largely triumphed over the concept of mission effectiveness.

Further complicating the measurement problems related to program effectiveness are the issues of the relative size, timing, and conditions under which philanthropic contributions are delivered. Consider the following two scenarios. In the first scenario, a foundation is lucky enough to receive over the transom a proposal from a promising organization that is looking to expand its operations. After careful consideration, a site visit, and persistent questioning about the proposed budget, a small grant is made in support of the organization at the urging of other funders. The grant represents only 10 percent of the total needed by the organization to execute its growth strategy and it arrives late in the

process. Eventually, the nonprofit draws national attention for its innovative and effective programs. The foundation demands a detailed financial and narrative report, then places links to the news stories of the organization's success on the funder's website, trumpeting its partnership with the organization. Was the foundation effective?

Consider a second scenario. A foundation in the course of actively scanning the local nonprofit community for promising new developments hears about an exciting but under-funded organization. The foundation reaches out to the organization, listens and learns about the nonprofit's desire to grow, helps meet the technical assistance and planning needs of the organization, provides a large proportion of the funds needed for the expansion, and encourages other funders, including the donor in the first scenario, to provide the remaining pieces of support that are needed. When recognition and publicity arrive, the foundation points the media to the organization's leaders and works to make sure that other nonprofits working in the same field learn about the programmatic breakthroughs that were achieved by the organization.

The purpose of these two very different scenarios is simply to highlight that the issue of program effectiveness in philanthropy cannot be separated from the issue of the relative philanthropic contribution provided by a foundation. Effectiveness—even the narrow concept of program effectiveness—requires that there be a meaningful causal link between the giving and the results. Effectiveness requires a certain proximity to nonprofit activity, not distance. Giving a

meaningful amount of money is but one way to meet this test of causal proximity. Other ways include being first among funders to make the philanthropic leap, providing support over time (not just episodically), giving sound advice when needed, and helping recipients access other resources. Regardless of what type of support a donor provides, the standard by which such efforts are judged should be whether the programmatic achievements of those who received support were in any meaningful way attributable to the donor's giving. Establishing a causal connection—or even a plausible attribution—is never easy. Still, the more a foundation does to make a gift meaningful, the greater the chance that claims of effectiveness will be supportable.

The issue of mission effectiveness takes on multiple and different meanings depending on whether one is talking about individual or institutional donors. For individuals, being effective has several possible meanings owing to the fact that individual donors often seek both to do good work in the world and to feel good about themselves. There are both instrumental and expressive purposes behind individual giving. The instrumental purposes, focused on accomplishing a set of defined social objectives, are those that are most clearly connected with the issue of effectiveness: Being effective comes down to being technically proficient at achieving the philanthropic goals one has defined. There are, however, more expressive goals connected to giving that have little to do with concerns over the achievement of social outcomes and more to with the feelings and experiences of the donor. The expressive purposes in philanthropy

are often neglected or even condemned as self-serving and insignificant. For many individuals who give, the notion of effectiveness involves, to a greater or lesser extent, some realized psychic satisfaction from the act of giving, experienced either in the form of the simple pleasure of expressing caring, or in the feelings of solidarity donors enjoy when translating their wealth into some measure of greater happiness for others. The greater the extent to which an individual donor is focused on the expressive aspect of giving, the more trivial some of the persistent questions about effectiveness appear. The fact that many individual donors believe being effective comes down to using philanthropy to enact their personal and spiritual beliefs highlights the gulf that often exists between individual and foundation givers.

When giving moves from individuals to professionally managed institutions no longer controlled by the founder or family, the stakes connected to effectiveness increase notably. While most individual donors are moved by some mix of expressive and instrumental purposes, institutions like foundations—particularly those managed by staff who have no connection to or knowledge of the founding donor—are rarely animated by anything other than a desire to use funds efficiently and effectively. The introduction of agency brings a clinical rigor and discipline to grantmaking, and changes the whole nature of the question of effectiveness. Because philanthropic agents are unable to convey to a donor absent from the scene any psychic benefits from giving, boards and staff tend to concentrate on maximizing the public benefits generated through philanthropy. The

professionalization of large segments of institutional philanthropy in recent decades has been an important development in philanthropy, because it has moved the target of philanthropy and the focus of the concept of effectiveness away from the satisfaction of the donor and toward the production of public and community benefits.

To date, the foundation world has done a very poor job of solving the effectiveness quagmire. Retreating into ever more technocratic language and procedures, foundations have made little progress in either clarifying the key dimensions of effectiveness or in communicating to the public how their grants have contributed to the public good in any significant way. All of which has opened the field up to complaints that foundations are not adequately accountable.

Accountability

If the effectiveness challenge were not enough, foundation philanthropy also has a longstanding accountability problem. Without any real way to hold foundations accountable, many worry that institutional philanthropy will never have the impetus to improve its performance and become more effective. Yet strangely, until foundations become more confident about the impact of their work, it is hard to see the field opening itself up to much scrutiny and rigorous analysis. Accountability and effectiveness are thus locked in a strange relationship of mutual dependence, in which progress on one dimension will likely lead to progress on the other dimension. Conversely, lack of progress on one

dimension will almost certainly stall progress on the other.

Setting aside the connection of the two issues, it is important to step back and ask why foundations should worry at all, in principle, about being accountable for how money is given away. After all, no one is held accountable for the expenditure of private wealth when it comes to the consumption of real estate, automobiles, food, clothing, entertainment, or any other good or service. Some might ask: Why should the expenditure of philanthropic funds raise any issues related to accountability since the decision to give is a private and voluntary one about how to expend wealth? The answer lies in the fact that philanthropy has several features that make it distinct from ordinary private consumption decisions. Foundation philanthropy in particular has features that expose it to legitimate accountability demands.

First, giving often is accompanied by a tax break, which can take the form of a deduction on personal income taxes, lower estate taxes if gifts are made upon death, and lower taxes on foundation investment income. When money passes from private hands into the charitable world, government rewards donors and bestows on them privileges and benefits that other citizens do not enjoy. Along with these subsidies, one might argue, comes a responsibility to use philanthropic funds wisely and effectively, since at least part of the cost of philanthropy is borne by government in the form of foregone tax revenue. Accepting subsidies creates responsibilities, at least in the minds of some. Thus, the first argument for accountability stems from the fact that, unlike many

forms of private consumption, philanthropy is accompanied by a substantial public subsidy.

The second feature of giving that makes philanthropy quite different from other forms of private consumption is the effect it has on others. While the purchase and use of private goods in the market rarely has its goal generating direct consequences for others, philanthropy—particularly large-scale foundation philanthropy—by its very nature works in communities and neighborhoods and influences others. Sometimes these effects are very direct, such as when human services are being offered; other times the effects are more indirectly felt, such as when a policy is being researched and advocated. The very fact, however, that philanthropy is public in its intentions and seeks to enact a private vision of the common good raises accountability issues precisely because the act of giving projects private values and commitments into the public sphere. The individuals and communities on which these values are projected can and do make accountability demands on donors.

All of which raises the third common argument for philanthropic accountability. Unavoidable power asymmetries result when one person or institution gives money to another person or institution. Although many foundations work hard to break down some of the boundaries of class and power that philanthropy raises, these cleavages are real and cause many to worry about the intentions and methods of donors. Few grant applicants are at ease around foundations, and often feel as though they must work hard to put their best foot forward. While it would be useful if founda-

tions and recipients could talk openly about projects together, the reality is that the wealth and power differential makes this kind of conversation difficult. In light of these cleavages and the fundamentally unequal positions that givers and recipients occupy in the philanthropic exchange, accountability concerns naturally arise—though they may have to be raised by third parties who have some distance from the particular philanthropic transaction in question.

Given these three more or less compelling arguments and the amount of money now involved in philanthropy, nonprofit organizations, local communities, government agencies, and increasingly, certain segments of the general public have taken the stance that foundations should be held accountable for their use of charitable funds. One reason why there has been a growing interest in resources controlled by private foundations stems from political and budgetary shifts that have occurred in recent decades. As large entitlement programs such as Social Security and Medicare have come to consume greater and greater proportions of the national budget, the amount of money available for discretionary social spending has declined proportionally. This has made it harder for government to support the creation of major new domestic programs and pushed some of their responsibilities to state and local government, and even to charities. In many fields of nonprofit activity, the importance of charitable dollars has increased substantially. Foundation grants represent one of the key ways that nonprofits launch new program initiatives, which only later attempt to achieve sustainability through the

charging of program fees or through other forms of long-term financing.

In many ways, accountability is a concept that is just as confused and conflicted as effectiveness. Part of the problem is that we have at least two dominant conceptions of accountability, and neither quite applies to the world of foundations. One conception of accountability is rooted in democratic theory. It holds that accountability becomes a reality when the tether of the vote is established between representatives and constituents. In politics, for example, citizens can exercise the right to vote, allowing them both to select those who will represent them and hold these persons accountable for the decisions they take in government. The right to vote breathes meaning into the idea of accountability, because it expresses consent and creates a sanctioning mechanism that can be applied if the behavior of the representative is not faithful to the interest of constituents. Of course, democratic accountability requires that citizens vote and keep abreast of political debates and issues, something that does not always occur. Still, by arming citizens with a tool for keeping their representatives responsive, democratic accountability succeeds in keeping those granted power responsive to those who have delegated this power.

Attractive as it might be, democratic accountability is not an option in the field of philanthropy, or at least it is not an option for the vast universe of foundations and institutions that populate the landscape. Foundations are profoundly undemocratic in that they do not give their grant recipients or the communities in which they operate the ability to

recall them or reverse their behavior. In fact, almost all philanthropy is profoundly undemocratic in that wealthy elites use their resources to enact their own vision of the public good. Some foundations may convene experts and listen to the opinions of others before making major commitments, but, by and large, philanthropic decision-making is a private affair. The meetings of foundation boards are not open the public; board members do not stand public election; and these organizations operate largely as they see fit, or how their founders and families judge most efficacious.

There is a second kind of accountability that is substantially different from democratic accountability. It is mutual accountability. One way that accountability can be established is by having a commitment among parties that each party to an agreement or collective effort will hold the other side accountable and vice versa. In the nonprofit world, systems of mutual accountability have been established in a wide array of fields, ranging from community development to welfare-to-work services. One of the clearest examples of how mutual accountability works can be found in the emerging field of microfinance. At least one of the more prominent nonprofits making small loans for business development around the world relies on a special form of mutual accountability in many of its loan programs in Latin America. Instead of lending to one person, money is lent to groups of five persons. The members of these "solidarity circles" are responsible not just individually for the loans they have taken out, but as a group, they are all responsible for each other's loans. If one person defaults, the others are held

responsible for the debt. This system of mutual accountability and shared responsibility has allowed microfinance organizations to achieve low default rates. Mutual accountability builds solidarity and trust among the parties to the agreements. It also is a way to cultivate commitment and enforce rules.

Unfortunately, grants are not loans, and mainstream philanthropy largely operates as a one-way street. The idea of implementing a system of mutual accountability runs counter to the basic precept that foundations provide capital and nonprofit organizations are responsible for implementation. There is little room in most philanthropy for mutual accountability, either among a group of nonprofits or between donors and recipients: Nonprofits generally guard their independence fiercely, few would want to cast their lot with that of other organizations, and givers and getters generally do not view themselves as part of a common enterprise. Mutual accountability construed broadly would demand that nonprofits take responsibility for the performance of other organizations, not just their own. Given the huge pressures and harried conditions under which many nonprofits operate, it is hard to imagine this ever happening. Construed more narrowly, mutual accountability would mean that funders would have responsibilities to nonprofits after a grant is issued. And while foundations do sometimes make multi-year commitments, funding is often limited to a few years, and foundations rarely deny themselves the freedom to cut off a nonprofit should it perform poorly initially or should the interests and focus of the funder simply shift.

There is yet another possible way to construe the concept of mutual accountability in the world of philanthropy, one that connects foundations to other foundations. The idea of mutual accountability might have some traction within two different contexts. The first is tightly bound geographical communities of donors. In some cities like Minneapolis, Chicago, and San Francisco, foundations are part of tight professional networks organized around regional associations of grantmakers. Within these local groupings, institutional donors might reasonably feel some sense of peer accountability and could develop learning networks around frank peer assessments. A second context in which donors might respond to mutual accountability claims involves issue areas in which groups of foundations are concentrated, such as health and the arts, where large affinity groups of donors are already organized. Within such groups, foundations might be willing to engage one another in a system of mutual accountability aimed at fostering dynamic learning.

In recent decades, there have been a few isolated examples of donors who have tried to overcome the lack of either democratic or mutual accountability by changing the fundamental rules of the game. The work of the "alternative funds" is the most obvious such example. Unhappy with the hierarchy and detachment of conventional private and community foundations, a movement was started in the 1960s to transform institutional philanthropy from the ground up. Groups of wealthy individuals with progressive political outlooks started alternative funds to disburse phil-

anthropic money in a new way. Rather than have donors sit on the board of these new funds and control the use of the money collected, the alternative funds brought in community members, organizers, and representatives from non-profit organizations to serve on the grants committees, where funding decisions were made. By turning the tables in philanthropy and by locating power in the grassroots, these progressive philanthropists believed they had broken through the accountability trap in which conventional philanthropy had long been mired. These funds created both democratic accountability and mutual forms of accountability between and among community leaders and funders. Not surprisingly, the alternative fund movement reached its apex in the 1970s at the height of progressivism and has been on the decline since, never constituting more than a miniscule fraction of the philanthropic universe. Contributions to alternative funds have dwindled, and today they operate on a small level on the very fringes of the field. Mainstream individual and institutional philanthropy, having taken note of this utopian vision of shared governance, decided that this vision was just not that attractive. For the vast majority of donors, the loss of power and control inherent in alternative funds has proven too extreme and final.

If the models of democratic and mutual accountability do not apply well to the field of philanthropy, it may be useful to analyze exactly how accountability is currently practiced in the field. Instead of taking the fateful step of actually building accountability structures upon which voice and

action are possible, the vast majority of foundations have taken less radical steps, the most significant of which has been the movement to offer up increased transparency in the place of accountability. If accountability involves a noisy and contentious dialogue between the world of philanthropy and its many stakeholders, transparency can be pursued by donors as a long and uninterrupted monologue. It involves pushing out toward the world information and details about philanthropy, and it makes no real commitment to listen or respond. Transparency is far less threatening to donors than accountability and as a consequence it has emerged as an attractive alternative. A substantial increase in the transparency of foundations has in fact been achieved in recent decades. Foundations have taken a host of information-sharing steps aimed at ensuring that questions about philanthropy are readily answerable. This transparency work has produced greater understanding of the field of foundations among the general public and allowed nonprofit organizations to research and direct their funding proposals more efficiently.

Although moving information out into the open is laudable, it is neither the functional nor moral equivalent of creating an accountability mechanism. As traffic on this one-way street of information has increased, there remain strikingly few meaningful feedback loops bringing information back to foundations. To be sure, a few large foundations have experimented with surveys of their grant recipients. These data collection efforts have ended up looking like customer satisfaction surveys. Even with a grant of anonymity

to respondents, however, these efforts have struggled to elicit honest comments and represent only a modest step toward making donors accountable for the procedural side of their work. These surveys may provide some insight into how nonprofits are treated by foundation staff, but they provide no information on the substantive issue of whether wise philanthropic choices and effective grants are being made. Other foundations, particularly those with a flair for theatrics, have experimented with open houses and town hall events, in which nonprofits are invited to pose any question they wish to the foundation's leadership, who typically sit up on stage. Like shareholder meetings of large companies, these events can have a staged and surreal quality to them. But unlike shareholder meetings, which can be contentious, foundation open houses are quiet affairs, since few nonprofits are ever able to really express themselves candidly in such a situation, even if they have major complaints and concerns.

The most common transparency device involves the simple release of information. Institutional donors have set up elaborate and informative web pages, published annual reports in ever greater numbers, issued concise grantmaking guidelines explaining what they intend to fund, and released "concept papers" laying out assumptions and preferred approaches to particular problems. While this information flow has certainly made it easier to understand what givers are thinking and what they are seeking to support, it can be a very broad but shallow form of disclosure. Releasing information can and does make the grantmaking

process appear less mysterious, but it is still a weak proxy for real accountability systems.

Perhaps the most visible response of the philanthropic community to the accountability challenge has been to hire professional staff to manage the grantmaking process. The foundation staff act as a mix of talent scouts, evaluators, and public relations specialists, providing a buffer between the board, which may include the founder and family members, and the general public. Beyond what they do, professionals within philanthropy represent something more significant: a commitment to taking philanthropy seriously. In many ways, the rise of professional grantmakers represents the single most significant development in the field of philan-thropy in recent decades. Only with professionalization have the issues of effectiveness and accountability truly risen to the surface and become amplified. Professionals in philanthropy have worked to create field-wide norms and standards for conduct, training programs aimed at develop-ing grantmaking skills, and a body of expert knowledge to guide practice. All this work has focused on fulfilling the instrumental dimension in philanthropy by ratcheting up the technology around giving, rationalizing practices, and building administrative structures, generally legitimizing the field in the eyes of the nonprofit community and the public.

When philanthropy is carried out by individual donors who simply enact their values and connect them to public needs, philanthropy is an expressive exercise through which donors project their commitments and beliefs onto the

world. While it may aim at achieving clear goals and pro-
ducing tangible public benefits, the stakes of individual giv-
ing tend to be relatively modest, especially when the
amounts of money involved are small. Giving is an experi-
ence for donors that allows them to make a connection to an
organization or cause that means something to them. It is
not surprising that hospitals and universities receive large
numbers of gifts from alumni and former patients, who
want to give something back. When giving is done by pro-
fessionals on behalf of a donor, the relative mix of expres-
siveness and instrumentalism shifts in favor of the latter.
Few staff, particularly those who come onto the scene long
after the donor is gone, see their work as anything other than
using philanthropic resources as effectively as possible in
support of the mission. Being effective is also a way for pro-
fessionals to achieve recognition within the field and to
advance to positions of greater responsibility. Since they are
giving away money that they did not earn themselves, pro-
fessionals within philanthropy are also naturally concerned
about accountability and their own legitimacy. Though solu-
tions to the accountability quagmire remain elusive, the
related move to greater levels of transparency has largely
been driven by professionals seeking to publicize and legit-
imize their own work.

The overall effect of professionalization in philanthropy
has been mixed. On the one hand, the process has certainly
contributed to the easing of the boundaries between donors
and recipients, and it has removed some of the caprice and
personalization inherent in donor-controlled giving. My

contention is that this shift has had more subtle effects that have gone largely unexamined. Professionalization has also impoverished the field in many ways by robbing it of an important part of what makes philanthropy truly distinctive, namely the convergence—and at times collision—of private values with public purposes. By focusing on maximizing the impact of giving, the pronounced shift toward professional grantmaking that has taken place in recent decades may have ultimately made it harder to achieve the most important form of strategic alignment, namely the connection of private values to public purposes.

Part II.

Regulation and Professionalization

How did philanthropy arrive at the condition in which it now finds itself, where effectiveness has become an ill-defined obsession and where accountability concerns remain wholly unresolved? The answer lies in the slow changes that have transformed giving from charity into philanthropy over the past century, which have been accompanied by a transfer of philanthropic responsibility from donors to trustees and finally to professionals.[6] One of the most important changes during this time has been at the level of the forces animating giving. As philanthropic duties have shifted from principals to agents, the private values of the donors that are critical to philanthropy have slowly been sublimated and overtaken by the public purposes to which giving is directed. This transformation has been gradual, but the effect has been profound. As philanthropy has been rendered more agnostic by its professionalization and rationalization, the problems of effectiveness and accountability have only become more acute, more pressing, and more infuriatingly difficult to disentangle.

Drawing on their tremendous resources and independence, foundations have over the years shown a willingness to attempt projects that government and business have

been either unwilling or unable to carry out for political or financial reasons. If successful, foundations can help establish laboratories for experimentation where new and controversial ideas can be put to the test. While donors of all kinds have the capacity to play a critical role in providing venture capital for social experimentation, foundations have themselves quietly undergone profound change and reinvention over the past two and a half decades. Before describing how and why this important shift took place, it may be useful to start with two snapshots of foundations.

In the first snapshot, dating from around the turn of the century to about 1960, American philanthropy appears to be a relatively simple matter carried out by wealthy donors and their families through uncomplicated institutions with minimal administrative staffs. The early foundations were dominated by the leadership of a small cadre of highly visible and very opinionated donors who set the standards for large scale philanthropy. Private foundations often operated discreetly, avoided public controversy, and had as their mission the pursuit of the private philanthropic interests and values of wealthy donors. Non-family trustees charged with running the foundation and eventually carrying on the donor's philanthropic mission were mostly Ivy League graduates who enjoyed careers in business, law, government, and higher education.[7] With small or nonexistent administrative staffs and little concern with public accountability, foundations used their tremendous resources however they saw fit.

In the second snapshot, dating from the 1970s and beyond, most large-scale giving is conducted through foun-

dations, which have come to be dramatically transformed. Gone is the simple administrative structure that enabled early foundations to act quickly and decisively in response to directions from the founder. In its place is a complex administrative bureaucracy staffed by a new cadre of foundation professionals, often with multiple approval levels through which grant decisions must travel. More important than staffing changes, however, is a conceptual shift in the understanding of foundations' place in society. Foundations emerge as profoundly public institutions, open and accountable to all, that work hard to build better relations with grant applicants and the public. Far from shying away from publicity, the new institutional philanthropy actually seeks out opportunities to explain and advertise its work to anyone who will listen.

How and why did philanthropy transform itself from a small set of private donors pursuing private agendas through obedient organizational intermediaries into a large national field in which public institutions were governed by grantmaking professionals? My answer ultimately rests on the slow transfer over the past century of most philanthropic authority from donors to trustees to professionals in the face of growing public awareness and increased regulation of the field. After a century or more of discrete giving by donors, the dawn of the twentieth century saw the creation of philanthropic institutions and with them the need for board governance and the consequent appearance of trustees and directors in philanthropy. Later, a series of contentious encounters with Congress, culminating in the pas-

sage of regulations on private foundations, propelled the field to increase transparency and professionalize its operations. In an effort to defend philanthropy from further government investigation and regulation, foundations strategically recast themselves as public trusts to be governed by public purposes and brought in a new class of foundation professionals to manage external relations. Beyond this historical claim, my argument is that this move toward institutions, toward reliance on agents, and toward an ever greater public conception of philanthropy lies at the heart of two problems of effectiveness and accountability.

Regulation and the Foundation Response

While the world of philanthropy emerged from several congressional inquiries during the first half of the twentieth century relatively unscathed, everything changed in the early 1960s as private foundations were under siege on a number of different fronts. Financial abuses at a few small foundations and highly politicized grants by some of the larger foundations brought increased public and congressional scrutiny. In 1961, Congressman Wright Patman, a populist from Texas, launched what would become an eight-year inquiry into the grantmaking and management practices of foundations. After extended hearings and negotiations in the House and Senate, Congress settled on a package of regulations designed to bring foundations under greater oversight. Although Congress had considered as punishment a requirement that all foundations expend all

their assets in forty years and go out of business, this pro-
posal was ultimately left out of the final bill. The Tax Reform
Act of 1969 (TRA 1969) set in place the following major reg-
ulations on foundations: an annual excise tax on net invest-
ment income, prohibitions against self-dealing, an annual
payout requirement, a limitation on ownership of any cor-
poration, and various disclosure requirements. For a world
used to operating freely, the regulations were painful and
caused much reflection.

Writing in 1970, Carnegie Corporation president Alan
Pifer reflected on philanthropy's encounter with govern-
ment and the imposition of new regulations:

> It was a period during which foundations were kicked
> in the shins and had their noses bloodied, and conse-
> quently we who work for them tend now to harbor an
> understandable sense of injustice. We resent the
> unfairness and shortsightedness of some of the fea-
> tures of the legislation and the extra administrative
> burden these will cause us. We resent the irrational
> emphasis placed by the Congress on a few uncharac-
> teristic instances of administrative caprice in founda-
> tions and the excessive attention given to a few
> egregious cases of real abuse, while the overall posi-
> tive record of foundations in American life was
> ignored. We resent the impression left with the public
> as a result of the legislation, that foundations were
> simply indicted, tried, found guilty and punished.[8]

In the months following the passage of TRA 1969, foundations went through a period of extensive self-examination. As a Luce Foundation vice president noted at the time: "Suddenly we realized we were not the conscientious, silent do-gooders we thought we were, but a vast array of extremely diverse organizations—with little or no constituency to come to our collective defense. Even more eye-opening was the sudden realization that we needed defense—and needed it badly."[9] What could be done to improve the positions of foundations after the embarrassment of 1969? Foundation leaders ultimately pulled closer together to defend philanthropy from any further outside intrusion. They did so by pushing a two-pronged strategy: First, through an aggressive campaign mounted by their national association, private foundations abandoned any claim to privacy and recast themselves as public institutions that were open and accountable to all; second, they took important steps to professionalize foundation work as part of a quest for greater legitimacy.

These two fateful steps, taken decades ago, continue to cast a long shadow over the field of philanthropy. The move to define philanthropic institutions as public trusts operated for public purposes put a significant crimp on the ability of donors to engage in idiosyncratic and highly personal forms of large-scale giving. With the move afoot to de-privatize and open up foundations, donors could not very easily maintain that their values, beliefs, and commitments had a central place in organized philanthropy. Similarly, the introduction of large numbers of professional staff made it hard

for donors to hold onto control of their philanthropic institutions and led over time to the progressive diminution of donor influence and control in institutional philanthropy. My claim here is that these two moves, one at the level of ideology and beliefs, the other at the level of practices and procedures, have helped the field appear more transparent, but have also made effective giving ever more elusive. With the accelerating professionalization of philanthropy, the private values and commitments of donors have been squeezed out of institutional giving, rendering it more neutral, technocratic, and homogenous. In a field in which one would expect to see profound disagreements about what constitutes authentic public need and how best to address complex social problems, there is a remarkable level of agreement and complacency. This is hardly a recipe for achieving philanthropic breakthroughs.

Soon after the TRA 1969 was enacted on December 31, 1969, the foundation community was awash in recriminations and dire predictions of the impending decline of charitable giving. In the midst of general confusion, conferences were hurriedly organized to discuss the implications of the new regulations. One lawyer who helped explain the new regulations to foundations in 1970 recalled the mood of the time:

> There was an atmosphere of terror. There was great fright and lack of understanding by most of the foundations that had not been closely involved with the legislative process. Most foundations around the

country had not stayed close to the process. They'd read about it in the newspapers, and the descriptions there had been very frightening. The whole thrust of the publicity about the bearing of this legislation on foundations was that it's terrible, foundations are at least an endangered species, and they may well be on their way to extinction. The mood was almost one of panic.[10]

What could be done in light of the unfortunate precedent set by TRA 1969? In February 1970, only two months following the passage of TRA 1969, the Council on Foundations, the Foundation Center, and the National Council on Philanthropy moved to set up a special Committee on the Foundation Field. The mission of the Committee was to "delineate and examine in light of present circumstances those services that need to be provided to the foundation field, and to recommend an organizational structure for the field most appropriate thereto."[11] The Committee was chaired by John Gardner, the former Secretary of the U.S. Department of Health, Education, and Welfare, and included three foundation officials and a dean from Harvard University. With three existing but weak and ineffectual membership and service organizations vying for control of the field, it faced a difficult charge. Nevertheless, the Committee was able to see that "the fragile position of foundations" called for action. It urged change on seven fronts: (1) increased reporting and information dissemination by foundations; (2) support of independent research and pub-

lications on foundations; (3) continuation and extension of library services for the general public; (4) improved government relations; (5) development of voluntary standards of good practice; (6) provision of a central clearinghouse and forum to facilitate the exchange of information and cooperation among foundations; and (7) development of a public relations strategy for the field as a whole.

Most significantly, the Committee on the Foundation Field highlighted the need to eliminate some of the competing voices within the sector. The Council on Foundations eventually moved to Washington, D.C., where it could have more direct access to Congress, the Treasury Department, and the Internal Revenue Service. As the Council's visibility and membership grew, the rival National Council on Philanthropy declined. The Committee's recommendation that philanthropy organize itself around a single association was realized when the National Council on Philanthropy was merged with the Coalition of National Voluntary Organizations to form Independent Sector, a new national organization representing the entire nonprofit sector, including both giving and recipient organizations.[12] By January of 1980, the Council on Foundations had become the prime spokesman for organized philanthropy.

The Council on Foundations emerged as the main voice for the field by mounting a sustained effort to expand its membership in the years after TRA 1969. The Council brought in new members each year by moving its national meeting to different sites around the country, each time attracting non-member foundations from the host city.

Attendance at the meeting increased between 1970 and 1979 from 550 to 1,200 (*Foundation News,* 1970-1980).

In the aftermath of 1969, foundation administrators were confused and frightened, and needed help understanding the implications of the legislation. Senior staff at the Council traveled extensively around the country and met with foundation administrators to talk about the new regulations and what measures were needed to bring foundations into compliance. Foundation executives were particularly confused and concerned about "expenditure responsibility" as defined in the legislation, which forced foundations to be more careful in documenting the recipients of their grants. As a result of its outreach efforts during the early 1970s, the Council cemented its position as the main spokesman and organizer of the field.

One of the main battles that the Council aimed to fight was against philanthropic timidity. Avoiding capitulation and retreat after 1969 was a recurrent theme in many of the Council's meetings with foundation administrators during its national tour. One official at the Council on Foundations observed: "Many tax lawyers and accountants were counseling everybody to do only the most obviously safe things. There was a great tendency on the part of foundations to let their accountants and their tax lawyers make their charitable judgments for them. The Council was saying, 'don't do that. You are the people who are the experts in your field.'"[13] The effort to keep foundations from becoming too cautious was significant because it necessitated a broader effort to place foundation management in the hands of a budding

class of professionals. In the decades ahead, these philanthropic experts would not just make safe grants to private universities and hospitals, but instead push the frontiers of charitable giving into new areas corresponding to new social needs.

Throughout the 1970s, the Council on Foundations thus defined for itself two important missions. First, the Council sought to create a new understanding of the place of foundations within society, one that defined foundations as public trusts, open and accountable to all, and, most importantly, operated for public purposes. This first mission was vital because Patman's populist anti-foundation crusade was founded on the notion that foundations were only tax dodges for the wealthy and a way to pursue their private agendas without accountability. Second, the Council sought to reform foundation management and eliminate those practices that had brought the entire field before Congress for scrutiny and criticism.

In the end, the Council's two missions fit well together. For as foundations slowly embraced their new public responsibilities, they naturally sought to expand their professional staff to improve relations with the public, including, most importantly, the myriad of grant-seeking organizations in the broader nonprofit sector. At the same time, the new foundation managers wholeheartedly embraced the new public trust conception of foundations because it coincided with their own understanding of their role and supported the start of careers in grantmaking.

Public Trust Conception of Foundations

Acting strategically, organized philanthropy's principal concern following TRA 1969 was to open up foundations to the public and to instill in foundation workers the belief that foundations were really public trusts to be operated for public purposes. One of the first and most important goals of the field was therefore to increase the visibility and accessibility of foundations through improved reporting. As a foundation executive remarked about the move toward greater openness:

> Foundations have adopted communications programs after hewing to an ethic of privacy for years. They decide to 'go public' for a variety of reasons. They may be swayed by the example of other foundations, persuaded by the accountability effort of the Council on Foundations, or impelled by crisis. Many foundations took the step as a result of the Tax Reform Act of 1969, in the realization that each had a vital stake in dispelling mystery and myth about the field as a whole.[14]

For many foundations, the first step in "going public" was the publication of an annual report, a move that the Council enthusiastically endorsed.

Improving Foundation Reporting

Almost everyone agreed that there was room for improve-

ment in the publication of annual reports. In the years immediately following TRA 1969, numerous articles in *Foundation News* trumpeted increased foundation account-ability through greater reporting. Some foundations issued their first annual reports, while others held "town meetings" at which grant seekers could ask questions and express con-cerns. In a 1974 editorial, the Council informed its members that "to paraphrase the New Hampshire state motto, foun-dations are going to have to learn to 'Communicate Freely, Or Die.'"[15]

Failure to report adequately was a main complaint of the congressional investigators, with one member of the Senate Finance Committee commenting during the hearings that he deplored "the concealment of foundation activities." The Senate staff charged with assembling data on foundations was also frustrated by the lack of reporting, noting that only 140 foundations issued annual reports and that thousands did not even respond to a request for information. Even though foundations were beginning in 1970 to see the need to change their ways, the information flow within philan-thropy was uneven. Many of the smaller foundations had yet to follow the urgings of the Council's leadership. One foun-dation worker noted in 1970 that foundations could be divided into four groups: "The first includes the 140 who issue annual reports plus those who unquestionably take the public into their confidence." Not all foundations were so responsible: "The second [group] we can call 'the public be damned' group." These foundations sought to protect their anonymity and to stay as far outside of the limelight as

possible. The third group was where the problem lay, for its "members are engaged in a free-wheeling variety of abuses, and they are well aware of it. Not much chance for reporting here, not willingly that is." This left a final category:

> The fourth category is much the largest and is composed of the many foundations, most small, who have never been made to realize the threat they constitute to the entire foundation field by their refusal to adequately communicate their activities to the public. . . . Some say that if they reported they would call attention to themselves and invite requests that they neither want to consider nor have the staff to answer. Their comments have at least a dash of "the public be damned" and are liberally laced with the "it's my foundation, so it's my money."[16]

One idea for addressing the reporting problem discussed at some length in the 1970s involved the creation of a "Foundation Press," which would assist smaller foundations in producing and publishing annual reports. If greater public disclosure was needed by all foundations, the argument went, then the philanthropic community as a whole had a responsibility to join together and help the smaller foundations find ways—even with their limited staffs—to be open and accountable. As the head of the Twentieth Century Fund noted: "All of us should endorse and practice the principle of full disclosure. Every form of cronyism and self-dealing should be banned."[17]

Typical of the response to the new call for openness was the Field Foundation's public promulgation of new principles guiding the Foundation's operation. Chief among these was a pledge to improve public information and accessibility:

> [Foundations] should be open to public scrutiny, making public reports at reasonable intervals and constantly sharing information and ideas with other persons and groups, including other foundations, active in the same areas. They should conduct their deliberations and reach their decisions by established and non-arbitrary procedures made known to all who seek their assistance.[18]

Resistance to this trend toward openness was not met kindly. As one foundation executive put it: "Foundations not yet ready to assume their responsibilities [for reporting] should perhaps rethink their role in the foundation picture. It has been said that 'it is easy to dodge our responsibilities, but it is impossible to dodge the consequences of dodging our responsibilities.'"[19] The Council of Foundations also began the practice of surveying its members on their reporting in 1971. By 1975, 275 members of the Council—72 percent of the membership—were issuing annual reports. At the same time, the number of foundations producing a newsletter increased from three in 1969 to over 40 in 1984.[20]

Although the campaign to open up foundations through

increased reporting started in 1970, it has continued in various forms ever since. For example, the Council launched an awards program in the 1980s to recognize the best-produced annual reports by its members. Even in 1979, the first item on the Council's "Checklist for Foundations" emphasized the continued need for openness: "We must be open, honest and candid about what we do. . . . Disclosure is no longer an option; it is a necessity. Annual reports by foundations are a minimum form of disclosure that far too many foundations still do not use."[21] For many leaders in philanthropy, increased reporting was a first and critical step in building a strong defense for the field.

Joining Givers and Receivers

As part of the effort to open themselves up to the public and appear more engaged, foundations began to rethink their relationship with their grantees. Instead of seeing themselves simply as the purveyors of funds, anonymous check-writers supporting worthy causes, foundations began to assert for themselves a more direct relationship with their grantees. A new relationship with, and responsibility to, nonprofit projects was thought to offer the best chance of affecting the recipient organization on a long-term basis. Foundations in the 1970s were urged to be team players, which meant encouraging other funders to join in projects and coordinating the involvement of outside parties. This new role would entail "indemnifying, recruiting, and providing technical assistance to the funded organization"—not just sending a check.[22]

Instead of seeing the nonprofit grantseeker as a burden to be dealt with either by rejecting or approving their grant request, many foundations—particularly those involved in the Council's work—reconceived their relationship with grantees in more collaborative terms. The strategic value of the repositioning was obvious. As long as foundations were seen as partners in the nonprofit sector, working side by side with community organizations and social service agencies of all sorts, charges of elitism and detachment would be more difficult to support. One foundation official noted at the time that the passage of the Tax Reform Act of 1969 "has prompted foundations to examine themselves and the ways they have traditionally operated." Changed practices were found to have resulted from this self-examination: "Not surprisingly, some consternation is apparent . . . because the extra care with which grants must now be made seems to do violence to some aspects of the prevailing view that philanthropy has come to have of itself during the last century. This is a view of legitimacy and honor."[23]

The regulations, though only "a signal" that a reassessment of foundations was overdue, were leading foundations to rethink their relationship with grantees. The traditional view within philanthropy held that once a grant is made, "the relationship between foundation and grantee should be characterized by mutual trust and a hands-off attitude on the part of the foundation."[24] In place of this detached style, foundations were moving toward a more engaged grantmaking style, in which grantees are closely monitored in their work and foundations offer support and resources to

those carrying out programs.

One of the most dramatic attempts to make this shift was undertaken by the Cummins Engine Foundation immediately following TRA 1969. At a time when urban racial strife was increasing, Cummins announced its intention to focus all of its philanthropic energies on urban problems. Cummins soon announced with some fanfare its hiring of four black program officers to administer the program. The goal of this reorientation was threefold: First, Cummins hoped to make its grantmaking more socially relevant and direct it to the most needy; second, the program was a step toward opening up grantmaking to disadvantaged populations; and third, the new staff would work hand-in-hand with community groups in a new way.

Other notable efforts to improve foundation relations with the nonprofit community included a series of "open houses" held across the country in the 1970s. At these philanthropic town meetings, nonprofit organizations were invited to come and ask local foundation trustees and professional staff questions about the operation of foundations. One such meeting that attracted national press in 1976 was hosted by the Bush Foundation in Minnesota, which drew over 400 representatives from the local nonprofit community. Because it had encouraged increased reporting, the Council on Foundations supported these public meetings through a series of editorials and reports.

As in other areas, the Council on Foundations played a leadership role by clearly defining proper foundation policy in the area of grantee relations. Soon after taking over as

president of the Council, James Joseph focused on the importance of including grant recipients in the operation of foundations. Joseph argued that the grant recipient could be the most effective defender of the charitable sector—when properly cultivated. To ensure that the donee would be a proponent rather than opponent of foundations, Joseph advocated three measures: (1) donees must be treated as if they are important to the foundation's mission; (2) donees must be allowed to provide input on the foundation's priorities; (3) donees must be made to feel that they have a stake in the continued health and well-being of foundations (Joseph, 1982).

A Code of Conduct

One of the most significant moments in the emergence of a profession is the propagation of a code of ethics, governing the behavior of professionals.[25] In philanthropy, the adoption of a code of ethics represented the final step toward instilling a new ethos of openness. A code of ethics was slow in coming for two reasons: First, the Council did not want to impose a code unilaterally too soon after 1969 for fear of alienating its new and growing membership; and second, foundation officials prided themselves on their independence and were generally resistant to outside parties seeking to influence a foundation's policies. However, many foundation officials felt there was a need for some kind of statement from the field as a whole, which would outline acceptable foundation practices and demonstrate to the public that foundations were capable of self-governance and self-regulation.

Leaders within the field made a first effort after TRA 1969 at laying down operating principles for foundations in 1973. The Council published in *Foundations News* "Some General Principles and Guidelines for Grantmaking Foundations: A Policy Statement of the Directors of the Council on Foundations."[26] The principles were non-binding and generally sought to reinforce the notion that foundations must make special effort to be open and accountable. Included in the principles was a clear reference to TRA 1969 as a lesson not to be forgotten:

> Despite the "overkill" contained in these provisions—which one must hope will prove open to congressional adjustment as working experience with the effects of the Tax Reform Act of 1969 becomes clearer—the act's forceful reminders that foundations exist for the public benefit and must be so directed have to be recognized as necessary and for the good.[27]

The policy pronouncements of 1973 set in place the cornerstone on which a more ambitious effort to develop operating principles for foundations was built six years later.

In 1979, the board of directors of the Council on Foundations took the first step toward creating an ethics code by appointing a special committee. Meeting often over the course of a year, the committee worked through numerous drafts and presented them at meetings of various regional gatherings and at the annual meeting of the Council in Dallas. The Council was clear about the purpose of the code:

"The purpose of the statement is to provide practical counsel to new foundations just establishing their operating guidelines and to existing foundations and other donor organizations that may be re-examining their policies and procedures."[28]

The statement of "Recommended Principles and Practices for Effective Grantmaking" also served an important public relations function. In the aftermath of regulation, the Council went to considerable lengths to help its members increase their public profile and improve relations with recipient organizations. The code fit well into this plan. The Council noted, "It draws heavily on the experience and insights of foundation executives and corporate giving administrators and is couched in terms of what has proved useful in the successful handling of grants and in the maintaining of good relations with the various publics with which grantmakers must be concerned."[29]

The eleven Principles and Practices amounted to a complete endorsement of the view that private foundations have important public responsibilities and must be governed in the public interest. The first three principles urged foundations to establish a set of policies that clearly define fundamental objectives, appoint a board of directors committed to implement these objectives, and set up processes for receiving, examining, and deciding on grant applications. These first three principles all focused on the importance of clear objectives, policies, and procedures. The fourth, fifth, sixth, and seventh principles focused on transparency and accessibility. The Council urged that foundations recognize

their public responsibilities to a broad range of constituents, including recipient organizations, state government, and the IRS. Open communication with the public and grantseekers was recommended, including prompt and honest responses to all grant requests and the publication of an annual report. These ideas flowed directly from the experience of foundations during the 1960s, when an inability to communicate the good work of foundations opened the door for congressional attacks. The ninth, tenth, and eleventh principles supported commonsense measures aimed at improving foundation performance. The Council recommended the periodic evaluation of foundation programs, the careful avoidance of any transactions that might appear self-interested, and active participation in the Council, regional associations, and organizations representing the entire nonprofit sector.

Ten of the eleven Principles and Practices were uncontroversial and predictable in that they pushed the Council's accountability and openness agenda, while seeking to ensure that foundations continue to improve and professionalize grantmaking practices. One of the eleven principles did, however, cause some controversy and provoke some consternation: The eighth principle urged foundations to professionalize their staffs and rely on affirmative action in their hiring. This caused some resistance among conservative funders, who left the Council in protest when acceptance of the principles became a prerequisite to membership. The alienation of a small number of Council members in 1983 was a small price to pay for having a large and

influential number of private foundations publicly endorse
the Council's ethics code. For the Council, the passage of a
code of conduct was a momentous event. Not only did it sig-
nify that foundations were serious about patrolling their
own ranks, but it also demonstrated that the Council leader-
ship could govern the field and successfully spread its vision
of foundations as public institutions. Looking back at the
process of creating and propagating the Principles and
Practices, Council president James Joseph noted: "The
attempt to identify and affirm principles and practices con-
stitutes a marriage of private and public values." For Joseph,
the development of a code of conduct was a critical public
relations coup and a triumph of the Council's public agenda:
"This union [of public and private values] preserves the
social contract between private philanthropy and American
society and protects the legal charter which makes each
foundation a trustee of the public good."[30] For Joseph, the
passage and acceptance of the Principles and Practices rep-
resented the most important step in positioning founda-
tions: "It is our 'public purpose' commitment which is the
most persuasive in convincing critics and public policy
makers that we should be permitted to hold philanthropic
resources in trust for perpetuity."[31]

For Joseph and the Council on Foundations, the devel-
opment and later required acceptance of the Principles and
Practices in the early 1980s were events of signal impor-
tance. They not only marked a significant moment in the
move to professionalize philanthropy, but also confirmed
the view that foundations were indeed public trusts to be

operated for public purposes. With a set of common princi-
ples and standards and a strong national association, foun-
dations were moving decisively to cement a new normative
order, one that began in the early 1970s with the Council on
Foundations' proclamation: "Not our money, but charity's
should be the key principle guiding each act of foundation
donors, trustees, and managers, whether in earning money
or giving it away."[32]

In retrospect, the strategic repositioning of foundations
as public trusts was a potent public relations strategy that
spoke to some of the central concerns of those who had crit-
icized foundations. By becoming more transparent and by
adopting standards, foundations were able to effectively
counter the most damaging charges that they had faced,
namely that they were elitist organizations, secretive in their
work, and out of touch with the communities they were sup-
posed to serve. Of course, by taking steps to reverse negative
perceptions, the foundation field had to make some conces-
sions and changes. Yet, when the dust fully settled after TRA
1969, few could reasonably argue that major progress was
made toward solving the core—and structural—accounta-
bility problem in the field.

Professionalization and New Practices

With the Council on Foundations leading the way, founda-
tions began to change their management structures and hir-
ing practices. Most significantly, the newly open and
transparent foundations of the 1970s and 1980s discovered
that they needed new staff to manage their increasingly

complex external relations. It is therefore not surprising that one of the most obvious changes within private foundations in the 1970s occurred on the balance sheet: the new regulations drove up administrative costs. Indeed, looking at the administrative expenses of foundations after TRA 1969, one observer at the time remarked:

> For foundations that attempted to adapt their procedures to the new restrictions, a lengthy review process was required. The day-to-day involvement of legal counsel in the operation of foundations increased dramatically—hardly an unmixed blessing. Many foundations began to ask their lawyers to review each grant they were considering and sought opinion letters on a wide variety of other transactions. . . . Legal fees paid by foundations have almost certainly increased since 1969; the paperwork the lawyers recommended has led to higher clerical costs and has in some instances required additional staff.[33]

The implementation costs of the new regulations are evident when one considers changes in foundation administrative expenses between 1966 and 1972. Administrative expenses include all costs related to the operation of a foundation, excluding grant outlays. During this six-year period, administrative expenses as a percentage of grant outlays increased from 6.4 percent to 14.9 percent. This increase was a significant change from the trend during the previous decade, when administrative costs were dropping.

**Figure I. Foundation administrative expenses as a
percentage of grant outlays: 1957–1989**
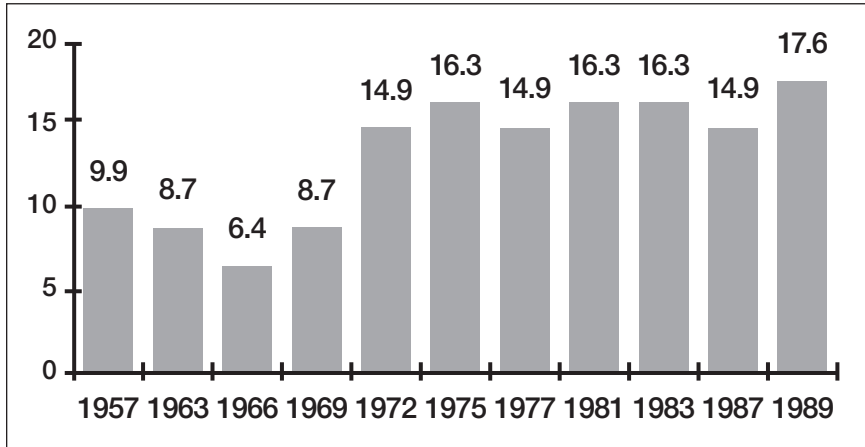
Source: Foundation Center[34]

To some foundation managers, the increasing adminis-
trative costs were simply a requirement of the new regula-
tions. Increased administrative costs immediately after TRA
1969 were an early indication of what would be a broader
trend in the field toward more staffing:

The foundation of the Seventies will be far more pro-
fessionally staffed than has been the case to date. . . .
It will no longer be possible to operate a foundation
out of a banker's pocket. The new legislation regard-
ing private foundations—the possible stiff penalties,
the danger of personal liability for each and every
officer and trustee, the more extensive reporting and
auditing requirements, expenditure responsibility for

particular grants—all lead inevitably to the conclu-
sion that someone had best be on duty full-time,
minding the store.[35]

To fill the new openings within private foundations with
a cadre of professional grantmakers, foundations began to
change their recruiting in the 1970s.

Seeking Philanthropic Expertise

A key element in the emergence of any profession is the
recognition of the salience of specialized expertise.
Throughout the 1970s and 1980s, foundations began to rec-
ognize philanthropic expertise as a qualification for founda-
tion work and to seek it out. No longer interested in
generalists from higher education and government who
could come to foundation work fresh, many foundations
began to look favorably on previous professional experience
in philanthropy. To illustrate and document the growing
salience of professional expertise and experience, I have col-
lected data on the hiring practices of foundations over the
past two decades.[36]

Table I. Previous employment of all foundation professional staff: 1970-1989

	Foundation	Nonprofit	University	Government	Other	Total
1970-74	15.8%	18.7%	38.1%	18.7%	8.6%	100%
	(22)	(26)	(53)	(26)	(12)	(139)
1975-79	22.7	18.0	31.7	14.4	13.2	100
	(38)	(30)	(53)	(24)	(22)	(167)
1980-84	26.5	15.0	21.1	21.1	16.3	100
	(39)	(22)	(31)	(31)	(24)	(147)
1985-89	41.6	21.0	18.2	12.0	7.2	100
	(87)	(44)	(38)	(25)	(15)	(209)
Total	28.1	18.4	26.4	16.0	11.0	100
	(186)	(122)	(175)	(106)	(73)	(662)

Two significant trends in hiring are apparent. First, there has been a substantial increase in the hiring of foundation staff with previous grantmaking experience. This increase confirms that the move to professionalize foundation work was not merely rhetorical and that philanthropic expertise became valued. The second trend is a steady decline in recruitment from higher education over the past two decades, from 38 percent in 1970-74 to 18 percent in 1985-89. As foundations began to recruit staff with foundation and nonprofit experience, the number of academics within philanthropy declined. The large number of foundation workers recruited from colleges and universities in the 1970s coincided with a general decline in the academic job market, a decline that pushed many Ph.D. recipients into nonacademic professions. By the 1980s, however, as philanthropic experience began to trump disciplinary expertise

and training, the number of foundation workers recruited from outside the field declined steadily.

The growing salience of philanthropic expertise was made most clear in 1996, when the Ford Foundation selected its new president. For the most visible and important position in the entire field, no national search was launched. Instead, without much fanfare and as many observers had predicted, Susan Berresford, a twenty-five-year Ford Foundation veteran who had begun work at the Foundation soon after graduation from college, was elevated from vice president to president. The significance of this move was twofold: First, it confirmed once and for all that philanthropic expertise was one of the key qualifications for foundation work; and second, it made clear that work in philanthropy was indeed a legitimate professional career in and unto itself.

In addition to the move to seek out professional expertise, another trend within the field is manifest: A field-wide move toward increased diversity has led to the steady increase of women and minorities in professional positions within foundations. While women and minorities began to enter philanthropy in significant numbers in the 1970s, only in the 1980s and 1990s did they reach proportions that surpass those in other professions: In 1992, for example, one major survey of foundation demographics revealed that fully 61 percent of all foundation program officers were women and 28 percent were minority group members.[37] These numbers are particularly significant when one considers that in the broader American workplace, minorities

represented in 1993 only 14.3 percent of all professionals and only 10.8 percent of all managers. Similarly, on a national level in 1993, women constituted 50.2 percent of all professionals and 29.9 of all managers.[38] That foundations managed in a period of only two decades to increase both minority and female employment well beyond national averages is a clear sign of the field's interest in creating an open, inclusive, and legitimizing workplace. The trend toward increased diversity dovetails with the trend toward hiring more program staff from the nonprofit sector, where many of the health and social-service organizations have traditionally employed substantial numbers of women and minorities. By making foundations look more like the broader nonprofit sector, foundations managed simultaneously to improve relations with recipient organizations and diffuse charges of elitism.

The events of 1969 made it clear that the costs of professional staffing were minor in comparison to the costs of appearing unresponsive and unaccountable. In the early years, only the larger foundations had full-time grantmaking staff. However, two decades of encouragement by the Council on Foundations changed this situation dramatically. In recent years, the majority of Council members have come to accept the need for professional staff. The field today is staffed by an increasingly well-networked group of professionals who take great interest in the long term prospects of spending a career in grantmaking.

Training Programs

In the early 1970s, foundation administrators had little literature to draw upon in their efforts to improve foundation management. Not only was there no practitioner's manual on how to operate a foundation, but there was also little understanding of what good foundation management actually entailed. After 1969, "black letter" standards for proper philanthropic management were all too clearly spelled out in the new regulations, which prohibited various self-interested transactions and certain investments. All that was needed was for the legal requirements to be melded with practical tips into a real foundation operating manual.

In 1972, the Cleveland Foundation convened a group of representatives from 18 major foundations to discuss the state of the art in foundation administration. A year later, the result was a 250-page administrative manual for the Cleveland Foundation, which included 11 chapters on everything from budgeting, grantmaking, personnel selection, portfolio management, and financial administration. Although this "Staff Reference Manual" was originally intended for internal use only, it soon began to circulate in the foundation world, particularly among small and midsize foundations. The Cleveland Foundation made copies available to any interested foundation and the manual was a point of departure for many foundations to discuss their own administrative policies.[39]

Appreciating the need identified by the Cleveland Foundation, private foundations began searching for literature on the practice of grantmaking to guide their work. Over

the past decades, a long list of titles has appeared aimed at explicating the many procedural challenges of managing a private foundation. The most important of these books was the *Handbook on Private Foundations*,[40] which in addition to focusing on the art of grantmaking in some detail, gave step-by-step instructions for setting up a foundation from scratch. This turned out to be a widely used volume among the growing number of individuals who were setting up foundations. In one place, they could find answers to questions that previously only an attorney could have answered about the rules governing institutional forms of giving.

Efforts at large foundations to build extensive training programs for staff were part of the move to professionalize grantmaking and build credibility for the field. Having well-trained, experienced staff was no longer a luxury to be enjoyed by the largest foundations. As one foundation manager observed, professional staffing was nothing short of a survival strategy in the 1970s:

> I believe that the rapid development of a cadre of foundation executives capable of advancing the enlightened interested of foundations is a matter of organizational survival. Foundation executives are yet to be included in any current listing of the professions. However, they do have a vocation requiring specialized knowledge and substantial academic preparation. One only has to look back at the events leading to the TRA 1969 to see the results of the paucity of leadership and how thinly spread was whatever existed.[41]

By the early 1980s, the Council on Foundations declared that "professional development has become one of the Council's highest priorities" (Joseph, 1983b:48). Professionalizing foundation work was critical because it was essential that the judgment of foundation workers have legitimacy and hold up to scrutiny. As James Joseph noted, "Despite an endless list of contributions to the public good—meeting a wide variety of human needs, feeding the hungry and housing the homeless, articulating social values and a sense of civic culture—private foundations are periodically forced to engage in a subtle form of competition for legitimacy."[42] Improving training and professional development programs was thus an obvious direction for philanthropy during turbulent times, and it has remained a central thrust of the field ever since.

The drive to professionalize philanthropy through training programs has increased in recent years, as groups have begun attempting to work with individual donors before they have even set up a foundation. The Ford Foundation and other consulting groups have developed programs aimed at introducing new donors to challenges of giving away funds effectively.

New Funding Practices

In philanthropy, organizational form did not follow function, but rather the opposite occurred. The organizational transformation of American philanthropy brought new grantmaking practices: With new professional staff appearing within many foundations, trustees could no longer justi-

fy simply making decisions based on personal connections. Grantmaking decisions were in large measure handed over to the new staff, as boards gravitated more toward a policy-and-planning role. As foundations became more heavily staffed, they began to change the way grants were made. No longer content simply to write unrestricted checks based on the overall reputation of a grant-seeking organization, foundations began requiring more convincing and more details before they would agree to a grant.

Beginning in the 1970s, and continuing on during the next two decades, the grants nexus would undergo profound changes. Back in the 1950s and 1960s, the best way to land a grant was to have a personal connection to a trustee who would secure the requested funds in a time-honored process of log-rolling, which allowed all trustees to fund their favored charities. The professionalization of foundations challenged this trustee-centered system and eventually displaced it with a new, more legitimate grantmaking process that placed the detached professional at the center of grantmaking decisions.

Professionalization also brought about a shift from "general operating grants" to what became termed "project grants," restricted to specific purposes defined in advance of the awarding of a grant. Foundation staff, imbued with new responsibilities, needed to find ways to judge grant requests beyond simply relying on the reputation of the grantseeker. In the quest for a more objective and more legitimate basis for evaluating grant requests, many foundations reformulated their grantmaking guidelines to reflect a new focus on project

requests. Under the new system, grantseekers would no longer simply submit a letter requesting support, but instead would outline a specific program or project within their organization that needed support. As one grantmaker noted in 1971: "Once a professional staff develops, you can be pretty sure of an even stronger inclination toward project funding and a predominance of foundations which feel it is vital to develop their own program thrust—and locate projects which meet certain defined objectives. This is very different from the foundation of the Sixties, which merely served as a conduit for the donor's giving program."[43]

As a consequence of this shift, grant requests to foundations became longer and more detailed throughout the 1970s and 1980s. Proposals began to describe not just charitable missions and programs, but also outcomes and expectations. To meet the requirements of foundation professionals, grantseekers began tailoring requests to individual foundations, offering each a different funding opportunity. What was gained by the shift away from general operating to project and program support? For foundations, the new system brought through the doors more detailed proposals, which in turn allowed foundation staffers to argue that their judgments were based on a set of objective criteria grounded in the content of proposals. The shift also justified the cost and administrative burden brought on by the introduction of professional workers into foundations. Quite simply, for the new foundation decision-makers to remain occupied both before and after recommending a grant, proposals needed to become narrower in

their scope and more subject to external oversight and tracking.

For nonprofits, the shift meant more fundraising effort and more post-grant work. After specifying how funds would be expended in great detail, discussing these plans with a foundation staffer, submitting to a site visit, and writing a report on the project, nonprofit organizations found themselves increasingly burdened by the new foundation procedures. The shift also necessitated the recruitment and training of development directors and program staff who would know how to handle foundation professionals and the new rigors of securing and reporting on grants.

Instead of having to make a subjective decision based on the overall quality of a grantseeker—always a difficult and subjective process—foundation staff sought more "objective" and measurable standards. They began to base their decisions on receiving detailed information about how grant funds would be expended and expect a more thorough accounting after the grant period was over. Project giving thus brought with it a heightened ability to judge, oversee, and evaluate grant requests—features that foundation professionals embraced in the name of openness and accountability.

While the move to bring in large numbers of professionals to manage foundations smoothed the interactions between givers and receivers, the unanswered question is whether these changes substantially improved the performance of foundations. It is difficult to measure effectiveness in philanthropy and even harder to attribute it to foundation staff action. Hence, the move to professionalize foundations

must be understood first and foremost as a change in the terms of interaction between nonprofits and foundations. Although some foundations clearly believe that staff have improved the quality of grantmaking in foundations and helped answer the effectiveness challenge in the field, the evidence for this claim remains elusive.

Change and Its Aftermath

The decade of the 1970s was a significant point in the development of modern philanthropy. The changes ushered in during this period did have clear precedents, however. Early philanthropic leaders, like the Carnegie Corporation's Frederick Keppel, had urged increased openness in the 1930s. Similarly, the Russell Sage Foundation advocated early on the improvement of foundation administrative practices. However, it took a regulatory shock to the field in the 1970s and the strengthening of the Council on Foundations for philanthropy's two major transformations to take root among a broad range of foundations.

First, foundations embraced a new self-understanding of their status as public trusts that were to be operated for public purposes. With the Council pushing for greater reporting and better relations with grantees, foundations fundamentally redefined their work. Gone was the tendency toward secrecy and aloofness. In its place was a new sense of the public responsibilities of foundations. The 1970s ushered in a whole new conception of private foundations as public trusts, open and accountable to all. A second major trans-

formation took place in the administrative practices of foundations. New staff entered foundation work to fulfill philanthropy's new public mission. If foundations were to be open, accessible, and responsive, new professionals had to be brought in to meet these new objectives. Although administrative expenses soared at many of the larger foundations, no price was too high to defend philanthropy from further attack and from further government encroachment.

These two transformations—in beliefs and practices—were, of course, mutually reinforcing and overlapping. And it would be a mistake to see the two phenomena as distinct and independent. The new conception of foundations as public trusts, open and accountable to all, may have begun to emerge earlier than the move to increase staffing, but both developments unfolded over a period of years and each reinforced the other. After all, newly hired foundation staff had a vested interest in pushing forward the new ethos of openness. Selling the idea that foundations must increase visibility and external relations created the very conditions under which professional staff entered the field of philanthropy in large numbers. As more and more staff entered the field, it was only natural that they in turn embrace and promulgate the principle of openness that made professionalism possible in the first place.

In the end, openness and professionalism hardly guarantee that foundation resources are being used effectively and creatively. The new ethos of openness and the introduction of a new cadre of foundation professionals have, however, successfully lulled many into believing that foundations are

now better managed and making a greater contribution to society than ever before. Though processes may be more rigorous, grantmaking more fair, and transparency more common than before, the underlying problems of effectiveness and accountability actually have become more acute as a result of this transformation: With openness and professionalism come heightened expectations.

As large-scale American philanthropy moved from something individual donors did during their retirement to something carried out by professionals in perpetuity, both effectiveness and accountability have become central concerns. It is not hard to understand why professionals would be concerned about both topics. For staff, the issue of effectiveness is central because it speaks directly to their own role within foundations, which is to improve the quality of grants that are made. This amounts to a mandate to maximize the effectiveness of foundation programs, something that staff spend a great deal of time and effort doing. At the same time, accountability is also a central concern of professional grantmakers who, owing to the fact they are giving away money that someone else earned, find it necessary to justify their decisions convincingly. Absent the ability to fall back on the individualistic claim that "It's my money and I can spend it any way I see fit," professional grantmakers must take great pains to defend and inoculate their decisions from any complaints about favoritism, capriciousness, or worse still, personalization.

The professionalization of philanthropy has had some unfortunate consequences above and beyond the fact that it

gave birth to and then accelerated the perceived effectiveness and accountability crises in the field. Most important of all, the move away from donor-driven philanthropy toward more agnostic, professional, and institutional forms of giving has removed from the field some of the passion and unpredictability that is present when individuals take their private wealth and project into public space their vision of the common good. To this day, many of the most interesting and inspiring attempts to use philanthropic dollars creatively have been by individual donors working independently or through institutions that they are actively managing. Many of the older and most institutionalized foundations, where the donor is no longer even a meaningful memory, suffer from a lack of grounding in substantive commitments and operate without the passion that is needed for philanthropy to innovate and inspire.

All of this is not to say that all institutional philanthropy is always or by its very nature inferior to individual philanthropy. In fact, donors can and do use philanthropic institutions to enhance the quality of their giving. My claim is simply that when the private values of donors and the public needs of a community are not simultaneously represented in philanthropy, something significant is lost. In many professionally managed foundations where the donor is no longer present, the balance between public and private is skewed toward the former and giving tends over time toward a safe but bland philanthropic agnosticism. Under such circumstances, procedural issues—often focused on how to measure effectiveness or promote accountability—become

central obsessions, which are never truly resolved, only discussed and debated at length. All of which distracts from the task of asking whether philanthropic dollars are being used in the most creative way possible to enact new and compelling visions of the common good. To the extent that the post-regulatory environment of the 1970s led a significant part of the field of giving toward a focused and cautious proceduralism, the capacity of philanthropy to tackle the important substantive questions embedded in giving was likely diminished.

Conclusion:

The Return of the Payout Debate

With Congress again looking at foundations and beginning to ask tough questions about their management and their generosity, the shadow of TRA 1969 and its aftermath looms large. One of the great ironies of the current controversy is that foundations ramped up their staffing and increased their overhead over the past three decades precisely because they were charged with being insufficiently accountable and ineffectively managed. Now, more than 30 years later, some in Congress are asking the foundation field to exclude from their qualifying distributions expenses that are the product of that very regulation. If foundations wanted to make a

truly compelling argument for the perversity of the proposed change, it would be that Congress now seems poised to punish the foundations for changes that Congress itself ushered in by regulating the field in the first place thirty years ago.

If it were enacted, the proposed modification to the payout rule may have many different effects on the foundation field, some of which can be anticipated, while others will surely be unexpected. The most obvious impact of excluding even some administrative expenditures from the minimum foundation payout would be to introduce an incentive within the field to curb the size of staffs and administrative expenses. While it is unlikely that many foundations would go through massive layoffs as a result of the proposed change, many foundations would likely view future hiring decisions differently. If every new staff position represents additional spending from endowment that otherwise would not have to be made, leaders in the field might pause before making new hires to assure themselves that the new position is critically needed. One reason why the decision to add staff might be rendered more problematic stems from the difficulty of measuring the value-added of quality grantmaking. In stark contrast, foundations have the ability to measure with great precision—and to benchmark against other institutional investors—the financial performance of their endowments. Given this significant measurement asymmetry, it is not hard to see how foundations might become far more cautious about spending funds on staff because all organizations tend to focus on what can be measured. If

spending less on staff will allow foundations to improve their financial position within the new regulatory environment, it is not unreasonable to think that many will do just that.

On the other side of this staffing issue is the real possibility that the proposed modification to the payout rule would ultimately do nothing to change the level of administrative expenses within foundations. Instead, it would simply drive the expenses underground. One possible and perverse scenario is for foundations to move their staffs into independent nonprofit organizations or "institutes" and simply make grants to these intermediaries which would count toward the payout requirement. In this way, the proposed change could become—albeit not intentionally—a full employment plan for the consulting world that now surrounds foundations. Grantmaking due diligence could be transformed into technical assistance work and overhead expenditures could quietly become grants. This would be a perverse development, of course, because it would only subvert the real intention of the reforms and might even lead to more stringent congressional measures down the road.

Counter to all the posturing by foundations and their lobbyists that has occurred in recent months, there are actually three good arguments for higher net foundation payout rates. The first is that by spending funds sooner rather than later there is the possibility of attacking a problem before it has become intractable. Foundations are not in the business of providing never-ending charity and in fact take some

pride in the fact that they are getting to solutions that nip social problems in the bud. Spending more in the short run can thus be seen as a strategy for moving the field toward strategic philanthropy and away from old-fashioned charity. This would allow foundations to make good on their claim to be in the business of wholesale social change, rather than small-scale interventions.

Second, one can construct a good case that higher current foundation payouts are justified given that new money is continuously entering the field of philanthropy to replace the funds that are now being expended. While there has been considerable variation in the range of estimates of the forthcoming intergenerational wealth transfer, there is little doubt that huge amounts of money will find their way into foundations over the coming decades. Foundation leaders opposing any new demands for higher grantmaking levels should realize that philanthropic resources in the aggregate are not fixed. In fact, the future infusions of philanthropic resources should make foundations today more able to focus on current public needs, while knowing that future donors will continue to protect the long-term capacity of the field.

Third, the legitimacy of the foundation field is at stake in the payout debate. With the huge amounts of money they control, foundations are easy targets for criticism. Criticism from activists within the nonprofit sector has been mounting. By paying out the minimum required by existing law and by opposing the current effort to increase the share of qualifying distributions that actually reach nonprofits, the

largest foundations have created conditions and occasionally displayed behaviors not dissimilar to those thirty years ago when the field was first investigated and regulated by Congress. By accepting the call to give out a higher net amount of grants, foundations could deflect the mounting criticism of their practices and position themselves more effectively as responsible partners within the broader nonprofit sector. In this sense, higher payout rates could be a potent defender of the field's privileges and its long-term independence.

If all this sounds convincing, it is worth pausing. Counter to the steady drumbeat by the progressive nonprofit advocates in the current debate, there are at least three good arguments for leaving the payout rules the way they are. The first relates to the future. Foundations may need to conserve their resources for the future, when new social problems may emerge and when existing problems may become more acute. Because no one knows what the future holds and because foundations must be ready to meet pressing social needs, an argument can be made that requiring greater levels of distribution in the short-run may actually put the field in a position in which it is less equipped to respond to public needs, be they new demands stemming from trends not yet visible or longstanding demands for solutions to problems that simply become exacerbated.

Second, keeping payout levels conservative appears quite defensible in light of the uncertainty of financial markets. Almost all foundations have their assets invested in a

mix of stocks and bonds, usually split roughly 60-40 between the two. Although many of the largest foundations have invested more heavily in stocks and done very well in recent years, memories of foundation financial advisors are long. In the past, there have been fairly prolonged periods of market decline, particularly in the mid 1970s, late 1980s, and early 2000s. While market declines may hurt foundation endowments in the future, those foundations paying out less in grants will be able to cope with these declines more easily than those that are spending their funds aggressively on grants.

Finally, there is simply the weight of history and tradition that argues against any major changes. Foundations have a long track record of managing under the current payout rules. Changing the rules now will cause major disruptions in the field, and produce a considerable amount of uncertainty, making it hard for foundations and their recipients to plan. In this sense, one of the simplest arguments against change is that the system is not broken, but in fact has worked well for years.[44]

Arguments can thus be fashioned on both sides of the issue. However, in at least one important way, the payout debate, as it currently has been framed, misses the point entirely. Setting aside the question of overhead and whether it should count toward the mandated payout minimum, foundations need to treat the payout decision as nothing other than an element of strategy, connected to and driven by the social mission and goals that are being pursued. In this sense, the real problem is not that founda-

tions pay out too little, but that research shows that they all are paying out at or near the same rate. Only when foundations understand that the payout decision should reflect and connect to the grantmaking strategy as well as the time horizon of the problems that are being targeted will payout rates become more differentiated. And only when more variation is observed in payout rates—connected to the vast range of missions that are pursued by foundations—will the field regain defensible intellectual ground and make legislation of the sort now contemplated seem misdirected.

In the end, no matter where one comes down on the payout debate, there is at least one thing that almost everyone should be able to agree on. Foundations are now being looked at carefully by Congress for essentially the same reasons that they were scrutinized in the 1960s. Then as now, foundations have failed to solve the deep-seated questions about their effectiveness and their accountability. To be sure, foundations have tried various ploys and devices to address these concerns. The wholesale embrace of the venture capital model in philanthropy is perhaps the most poignant example of how the field, knowing that it has huge blind spots, has rushed to embrace a model for which there was little evidence of its appropriateness. Millions of consulting dollars later, the rhetorical twists and turns of venture philanthropy have left the philanthropic landscape awash in ill-defined and poorly fitted business terms and a long list of unsupported claims about measuring "social return on investment," a concept which has become the elu-

sive sasquatch of the foundation field.

Instead of dreaming of overhauling the field through rhetorical moves, foundation leaders need to take seriously the challenge of doing good work that leads to visible outcomes, and being open and accountable actors in the nonprofit sector. This is the difficult and unglamorous work that lies ahead. All the clever lobbying in the world and all the dire predictions of financial doom and gloom will not protect foundations from further congressional scrutiny in the coming months or even years. In this sense, the real solution to current congressional criticism of foundations and the contemplated changes to the payout rule lies in foundations delivering once and for all a compelling response to the effectiveness and accountability challenges that have nagged the field for decades.

Endnotes

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About Hudson Institute's Bradley Center for Philanthropy and Civic Renewal

The Bradley Center for Philanthropy and Civic Renewal was founded in January 2003 and is directed by William A. Schambra. The Bradley Center takes its name from the Lynde and Harry Bradley Foundation, its principal donor and a prominent funder of public policy research supporting free enterprise, traditional values, and a strong national defense.

The Bradley Center aims to encourage foundations and charitable donors to direct more resources toward support of small, local, often faith-based grassroots associations that are the heart of a vital civil society. In its research, writing, and seminars, the center critically examines the current giving practices of American foundations, which tend to be directed toward large, expert driven projects that often undercut, rather than support, small civic associations. It also provides practical advice and counsel to funders who are interested in designing grant-making programs that support civic renewal.