Grant Makers Should Rethink Their Agenda to Meet Society's Needs

Pablo Eisenberg

By Pablo Eisenberg

When the Council on Foundations released its agenda this spring to outline its hopes for the 112th Congress, some parts were predictable. Most notably, the grant-makers group once again asserted its 11th commandment: "Thou shall not increase the payout rate." That foundations continue to lobby tenaciously to give just 5 percent of their assets is shortsighted and against the interests of the nonprofit world, but what made the agenda even less sensible was how the council handled other issues that also matter a lot to nonprofits.

In particular, the wish list for Congress misses the real opportunities to make change in rural America or ensure that money is spent on charitable causes and not on exorbitant trustee fees. That is part of a pattern of failing to take on key public-policy matters, especially the diversity of those who give away tax-exempt money, a subject that has become the topic of legislation in states like California and Florida.

Here are some of the key public-policy issues on which the council should rethink its position:

How much foundations should give. Under federal law, foundations are required to give at least 5 percent of their assets to charitable causes, on average, every year. The council called that "appropriate" and suggested that the law stay in place.

It said it would oppose any arbitrary adjustments to the 5-percent rule that are not supported by commonly accepted data, ignoring the fact that the current percentage is itself arbitrary.

Based on the assumption of average investment returns of 8 percent and an inflation rate of 3 percent, the council overlooked the much greater than 8-percent returns foundations have achieved in recent years and inflation rates lower than 3 percent. Nor did it acknowledge studies other than its own that concluded that higher distribution rates—for example, 6 or 7 percent—would also ensure the perpetuity of foundation assets. Those studies show that not only are the higher percentages consistent with the goal of operating forever but that all of that amount could be distributed in the form of grants without unduly eroding the endowment. Currently foundations are allowed to include other expenses in the calculation of how much they give, such as the costs of consultants and publicity campaigns.

More important, the agenda did not mention the critical financial needs of nonprofits in a time of staggering federal and state budget cuts that have severely crippled America's social safety net and many of the nonprofit organizations that carry out the missions foundations say they care about.

Aid for rural America. The council proposes to support a measure called the Rural Philanthropy Growth Act, which would steer existing federal money to help build endowments to provide grants to distressed rural communities and nonprofits. (See article.) To its credit, the council has finally recognized a major problem in the distribution of philanthropy's assets. Large regions of the country are grossly underserved by foundations and corporate grant makers, rural areas probably the most prominent of them.

With a few exceptions, big national foundations have preferred to give their money to national organizations, most of them with few ties to rural communities. Local grass-roots groups rarely receive the attention of these big foundations. Since relatively few corporations have headquarters in rural areas, few businesses channel philanthropy to such groups, either.

When Hurricane Katrina hit states like Alabama, Louisiana, and Mississippi, it quickly became apparent that they did not have enough nonprofits to help provide the type of emergency assistance and rebuilding efforts that were needed at the time. Foundations had totally neglected this portion of the country.

But an appeal to the federal government is not the best way to use scarce federal funds or to build rural endowments. It is the large foundations that have the capacity, and indeed the obligation, to create philanthropic institutions that could prime the pump of economic development and strengthen local charities in rural areas.

With their huge assets, the Bill & Melinda Gates Foundation, the group of Walton foundations, the Ford Foundation, the Atlantic Philanthropies, the Open Society Institute, and others could establish at least $4-billion or $5-billion foundations to devote the needed resources required by financially strapped rural communities.

Instead of advocating for federal support of rural enterprises, the council should try to use its influence to persuade some of its wealthiest members to invest in the growth of rural philanthropy.

Foundation trustee fees. The council has always been neutral on the question of whether foundations should pay trustees for their time, but its neutrality has in fact condoned the practice. It is time for the council to take a stand against trustee fees and ask Congress to limit or eliminate their use.

It is an irony of the nonprofit world that many of the wealthiest and most highly paid professionals, namely those who serve as foundation trustees, should be paid for their foundation work, while people with more limited means are expected to volunteer their time to serve on nonprofits' boards.

Although the majority of foundations don't pay their board members for their services, a large number, especially at the large institutions, do so. Some pay upward of $50,000 to $100,000 a year to trustees for a job that rarely requires more than a small amount of time. Nobody knows exactly how much is paid in fees, but in a study I conducted a few years ago, it seemed likely that foundations spend some $300-million to $400-million a year on trustee fees, money that otherwise could be going to needy nonprofits. It is a disgrace, especially in these tough economic times, that such a practice is permitted to continue.

To encourage people of moderate incomes to serve on foundation boards, Congress might want to allow up to $8,000 a year for each trustee for his or her work at a foundation.

Diversity of foundation boards. A recent foundation management study, issued jointly by the council and the Foundation Center, reported that almost three-quarters of foundation board members are over 50 years of age, that 62 percent of them are male, and that only 15 percent are members of minorities.

Although the number of minorities and women has noticeably increased over the past 25 years, their numbers are still unacceptably low. Many people like me who started criticizing board performance years ago attributed it to the absence of women and minorities. Yet today, notwithstanding the increase in board diversity, we have not seen any major improvement in the ways boards function. The reason for this lack of change is that the women and people of color who have joined foundation boards in recent years resemble their white, male, corporate counterparts. They tend to be wealthy and highly paid professionals, people invested in the economic and social status quo.

The diversity issue, then, has become largely a matter of class. Few teachers, blue-collar workers, ministers, small-business owners, grass-roots community leaders, nonprofit staff members, or social workers serve on foundation boards, large or small. Foundation governance does not represent the diverse face of America. Until they expand their boards to include more moderate- and middle-income representatives, foundations are not likely to change their priorities or the way they do business.

What is surprising is that to date there has been no thorough survey of foundation board membership that includes the question of class. The council's own diversity efforts are limited to issues of gender and people of color. It is about time that the council not only broadened its diversity efforts but also helped start a major study of the role of class on foundation board membership.

But the council is not alone in its limited definition of diversity. The D5 coalition, composed of 18 foundations, just released its report, "State of the Work," a guide to diversity and inclusion in philanthropy. Not once does it mention "class" as an element of diversity.

The Council on Foundations has an opportunity to take a leadership role on issues of rural philanthropy, trustee fees, and class diversification of foundation boards. It would be a pity if the council were to remain merely a trade association catering to the lowest common denominator of its membership. Let's hope the council will rise to this challenge.

Pablo Eisenberg, a regular Chronicle contributor, is a senior fellow at the Georgetown Public Policy Institute. His e-mail address is pseisenberg@verizon.net.