

From the issue dated July 20, 2006

The Gates-Buffett Merger Isn't Good for Philanthropy

By Pablo Eisenberg

Warren Buffett's donation of more than \$30-billion to the Bill & Melinda Gates Foundation was a huge and generous gift that could well inspire other very wealthy individuals to donate much greater sums to charity in their lifetimes than they had previously planned. And it could prompt many wealthy donors to think far more carefully about how best to distribute their wealth.

But other than that, the donation isn't going to do much to change the foundation world. What's more, the donation raises many troublesome questions about the role of foundations in American life, their relationship to government, their lack of public accountability, and the disturbing elitism that characterizes their governance systems.

Perhaps most alarming is that the sheer size of the gift — bigger than the gross domestic product of many countries — just adds fuel to the argument that increased philanthropy is the answer to America's mounting social problems, not government programs and assistance.

After all, the \$30-billion that American foundations gave away last year pales in comparison with the amount of federal and state funds that are spent meeting human needs in the United States. Only delusional or ideologically-motivated thinking can envision philanthropy substituting for government programs and responsibility.

But it's not just how much foundations spent, but what they spend it on, that explains why they don't have all that much impact on society's biggest problems. And the extra \$1.5-billion that the Gates Foundation will now give away annually because of its infusion of money from Warren Buffett does not make matters any different.

Foundation priorities in the aggregate have not changed much, if at all, in the last 40 years. Only a minuscule portion of foundation funds goes to groups that work with disadvantaged people and social-change organizations. Even less money goes to efforts to influence public policy, and to support advocacy and grass-roots organizations.

The overwhelming amount of foundation funds is directed to establishment institutions of higher education, health, arts and culture. Almost all foundation money has been palliative; very little has gone into efforts to transform the lives of needy Americans, change dysfunctional government and private institutions, improve our political system,

reduce inequities in wealth and income, or check the excesses of the free-enterprise system.

That is one of the reasons why society is in trouble.

Many public schools are failing. Our health system is in shambles: some 40 million Americans aren't covered by health insurance; too many hospitals are poorly managed and fail to treat indigent patients; we are not developing a sufficient number of doctors and nurses; drug companies are charging outrageous prices for prescription drugs; and the Medicare prescription-drug program is an administrative and programmatic nightmare.

The lack of low-cost housing has reached dangerous proportions. Big money is still corrupting the nation's political system, without much hope that needed reforms will soon be initiated.

Government agencies, including the Federal Emergency Management Agency, the U.S. Agency for International Development, and the Environmental Protection Agency, have been politicized and denuded of competent civil servants; it is increasingly difficult to attract bright, capable young people to public service. Watchdog nonprofit organizations, while crucial to our democracy, are understaffed and underfinanced.

By failing to support efforts by nonprofit organizations to educate the public about those issues and to organize them to influence policy makers, foundations — with a few notable exceptions from both conservative and progressive institutions — have let our democracy down.

Contrary to their public-relations puffery, they are not serving as innovative, risk-taking, and cutting-edge instruments of civil society. They have not been the agents of needed change. Rather, they have been the servants of the status quo, preferring the safety of accommodation to the virtue of courage and action.

It's about time the American public takes a realistic view of what foundations really do, could do, and choose not to do.

While foundations play an important role in supporting thousands of colleges and universities, financing significant research, and supporting nonprofit organizations, they are not focusing on the resolution of our most urgent social, economic, and international problems.

One hopes that a growing number of foundations will accept such a challenge in the future, especially if the newly enriched Gates Foundation chose to expand its grant-making priorities and speak out to encourage other foundations to do more to focus on this country's most urgent needs.

Gates has done a remarkable job in combating deadly diseases in developing nations throughout the world, in supporting higher education for minorities, and in trying to improve high-school education in the United States.

Would it not make sense for the Gates Foundation, with its additional resources, to turn its attention to the broken health system in the United States?

That would be a far more complex and risk-taking venture than making medicines and better distribution systems available to developing countries overseas.

The Gates Foundation would have to challenge existing institutions and ways of doing business in the health field. It would have to step on many toes and question many long-accepted assumptions. It would have to undertake extensive public-policy and advocacy activities the foundation has mostly avoided. But the payoff could be gigantic.

Sadly, I would not bet any money they will be ready to take on such a challenge. And there is almost no way for the public to influence the choices about what issues the foundation finances, in large part because of the foundation's exceptionally insular approach to governing itself.

The Gates Foundation does not have a board of directors. Instead, it is run by two trustees — Bill and Melinda Gates — and now Warren Buffett will be added to the board. The two other key players at the foundation are Bill's father, Bill Gates Sr., and Patty Stonesifer, a former Microsoft executive and longtime friend of the Gateses.

To put more than \$60-billion in tax-exempt assets under the control of members of just two families is not an arrangement that benefits democracy. On the contrary, it is antidemocratic. The Gateses and Mr. Buffett will be in charge of allocating at least \$3-billion a year of tax-subsidized money without any way for the public — or the political process — to achieve any decisive influence over the foundation's priorities.

And the Gateses are running what is likely to be just the first mega-foundation in the country.

Some observers have predicted a transfer of trillions of dollars from inherited wealth to charities and foundations during the next 30 years. That means that we are likely to see the growth of more mega-foundations run by two or three family members, thereby compounding the problem of foundation public accountability and its relationship to democracy.

The huge majority of American foundations are family foundations run by boards composed of family members. Few have outside trustees; many consequently suffer from the lack of broader perspectives that outsiders could bring. Most are resistant to such an expansion.

It is ironic that, as the federal government is reducing its responsibility for the social safety net, that burden increasingly seems to be falling into the lap of foundations, the most elitist institutions in our country — the boards of which are composed almost entirely of wealthy people and highly paid professionals — which historically have neglected the most disadvantaged Americans. There is a perverse Marie Antoinette feel about the situation, a return to "noblesse oblige."

If the foundation would add five trustees not connected to the families or businesses of the donors, the Gates family and Warren Buffett could set an example for other family-dominated foundations.

Such a decision by two powerful corporate giants in the habit of exercising total control over their business operations would send a powerful message across the bows of philanthropic institutions.

The elite governance structure of foundations is an issue that policy makers, the nonprofit world, and the public will eventually have to face. It could prove a major obstacle to our democratic process in the long run. Better for foundations like Gates to take the matter in their own hands by democratizing their boards voluntarily.

Until that happens, we will have to count on the news media and government regulators to ensure accountability at the new mega-foundations.

Given the lax record of the Internal Revenue Service in monitoring foundations, it is hard to imagine that it will do much to keep the Gates Foundation or any other major foundation in check.

And the performance of the news media after the announcement of the Gates-Buffett philanthropic merger was not encouraging. All that most reporters could do was gush about Mr. Buffett's largess. Almost none of the reporters saw fit to raise critical questions about the larger implications of the grant.

Now is the time for more inquisitive and thoughtful journalists to bring their investigative skills to serving as watchdogs over the world's biggest philanthropy.

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