Transcript Policy 360
Episode 55

Kelly Brownell (KB): Welcome to Policy 360. I'm Kelly Brownell, Dean of the Sanford School of Public Policy at Duke University. More and more, people who have a lot of money are giving away that money before they die. Look at Facebook founder Mark Zuckerberg and his wife Dr. Priscilla Chan as examples. In 2015, they pledged to give away 99% of their Facebook stock- a gift estimated at the time to be worth $45 billion dollars. There's even a club for wealthy people who've signed a pledge to give away half their money. At the same time, many of today's donors want to do things differently- they don't want to set up a foundation that will last forever and ever. Instead, they want to spend their money in their own lifetimes.

Here to sort through this, and what it means for philanthropy, is Joel Fleishman. Joel is a professor of law and public policy at Duke University, where he directs both the Heyman Center for Ethics, Public Policy and the Professions, and the Center for Strategic Philanthropy and Civil Society. Joel has a new book called "Putting Wealth to Work: Philanthropy for Today, or Investing for Tomorrow". So, welcome to Policy 360, Joel.

Joel Fleishman (JF): Thank you for inviting me to participate.

KB: Well, I know this this book was a labor of love and took a very long time to accomplish because you were collecting information in all sorts of different ways, and I know part of the process was interviewing such people and getting to look at the inside on a number of foundations around the world. So, you have a wealth of knowledge on this, so it's wonderful for you to share this with us. So, let's begin with this question: How did this "giving while living" idea get started?

JF: Andrew Carnegie started it when he published the "Gospel of Wealth" in 1889. His point was that rich people should use the same kinds of skills in giving away their money that they used in making it, basically. And that that meant that they really had to be alive when they were giving away the money. Unfortunately, for Andrew Carnegie, while he proclaimed that as the goal, he did not succeed in doing it personally. He ended up with about a quarter of his own assets left, while he was still alive, that he couldn't figure out what to do with, and, therefore, decided to establish a perpetual foundation now known as the Carnegie Corporation of New York. So, the point is- it's hard to do. Everybody who's spoken on the subject from- starting with Warren Buffett, [I mean] starting with Andrew Carnegie, and, you know, going through [as] Warren Buffett says, "It's much, much harder to figure out how to give away your money well than it is to make it."

KB: It's so interesting, because you think that there are so many significant problems in the world that, and they require almost an infinite amount of money, that it would be easy to do. Why does it become so hard?

JF: It becomes so hard because people have different expectations about what they want to accomplish, basically. And one of the reasons that you see the surge of giving is that you have a lot of young people who've made money, made a lot of money when they're young trying to figure out what to do with it. And, the analogy that they're making in their own minds is, "We want to get the same kind of satisfaction out of giving away our money that we got out of making it." That's much, much harder to do.

KB: I can imagine. So, my impression of the world of foundations has been that the foundations that are most prominent, like the Rockefeller Foundation, or Ford Foundation, etc., are the perpetual foundations and- but you mentioned Andrew Carnegie, going way back, and now there's a new flurry of activity around giving away all the money during one's lifetime. It, is it true that there was kind of a wall in there, where the giving away the money wasn't considered one of the options people would exercise and now it's-

JF: During their lifetimes.

KB: Yeah.

JF: The answer is yes. I mean, almost a century- the fact is that from the time that Andrew Carnegie wrote the "Gospel of Wealth" in 1889, until about 1990, there were fewer than five foundations that deliberately spent down or the donors- basically spent all of their money.

KB: That's a stunningly small number.

JF: It's a stunningly small number and, but, you know, there were interesting examples of it. The Julius Rosenwald Foundation was the first one, and Julius Rosenwald himself made his money in building Sears Roebuck. [He] decided that he would do this [spend down his own money], not only would he do it with his own money, but that he would wage a campaign trying to persuade other rich people to do the same thing. And, he wrote this really interesting- two interesting- articles. One sort of for the popular press that was published in The Saturday Evening Post, which makes the case that- I have to say, in many respects- with erroneous facts. That is things he said that simply aren't true and, but, otherwise making the case that people should give away their money during their lifetimes because they- perpetual foundations do all kinds of sins, they, they are, they become bureaucratic (he says). [He also says] money accumulates that cannot be spent for legitimate purposes, which can't be changed -- which is not true. There are just countless [untrue] things that he says in there.

The second article was an article in The Atlantic, which was thought to be a more academic article. So, you've got these two articles standing side by side that are still extant and which people continue to refer to. But, Julius Rosenwald spent, he spent all of his money during his lifetime building school houses for African-American kids all over the South. Five thousand schoolhouses.

The next really interesting one [that spent down all of their funds] was the foundation created by the a much smaller foundation in New York that created the New York AIDS Research Center. Irene Diamond, her husband died, and she spent the money she that she- she had an extraordinary instinct about things.

Right at the moment in which AIDS first emerged, she decided that maybe there would be enough money in her foundation to make a difference. And, it turned out it was, because they ended up, putting all the basically, most of their free money at that point into developing new -- the cocktail treatment for AIDS, which saved, probably, millions of lives- still saves millions of lives.

So, you know, and then there's the John Olin Foundation, which was a, sort of, the basic conservative foundation that built the conservative intellectual infrastructure in the United States. Many, many different dimensions, including the biggest organization that has conservative members on the Supreme Court as part of it. So, … you’ve got three interesting foundations that made a difference, in doing that. But, they're the only ones of any consequence in almost 100 years.

KB: So, given these cases you mentioned, and that they were the exception- over a hundred years, there were only a few- but now there's a lot of interest in philanthropists about giving away all the money during their lifetime. Why do you see this happening? Because, the conditions that you mentioned- somebody wanting to feel as good about giving away their money as they did making it- those conditions would have applied over the past hundred years as well.

JF: They would've been, but, you know, it takes a while for people to get adjusted to the idea, basically. The problem is that many people, I think, emotionally want to do something big with their money- analogous to what they did with it in making it- but the fact of the matter is figuring out what to do is a hard thing to do, and they recognize that. And they also recognize that it is highly risky, because, you know, you don't get, as I say in the book, it is the kinds of things that people do with their- with a lot of money in a short period of time, typically do not pay off in a short period of time; you know, are the kinds of things that pay off very slowly. Cancer research. How do we solve the problem of food equity? (All the kinds of things that you work on.) These are all there -- and people who start thinking about deploying billions of dollars on it understand that [these problems] cannot be solved in an instant. And that's the problem, because many people want to solve things in an instant because they want that -- they want the pleasure of seeing accomplishments that occur as a consequence of the wealth that they made. And yet, they also know, at the same time, that that's not an easy thing to do.

KB: So, could it be that the likelihood of being successful with investing your money in this way would depend on the nature of the problem that you're interested in?

JF: Absolutely, a hundred percent. It always depends on the nature of the problem, it depends on the complexity of the problem, it depends on one's tolerance for patience, it depends on many, many factors. Not- you can't, you couldn't boil it down to one factor.

KB: So we've talked about some of the activities of the spend-down foundations. For the people who are listening, who don't know as much about the foundation world, could you give us an example of a traditional perpetual foundation and way they work?

JF: The perpetual foundations were set up, basically, starting about a hundred years ago, and the 25 largest foundations in the United States are perpetual foundations. They have boards that choose their successors. Many of them still have family members on the board- the Packard Foundation is one of the largest has, is still basically controlled by members of the Packard family. The Hewlett Foundation, which is another one of the largest ones, still controlled by members of the Hewlett [family]. The Simons Foundation in New York, which is smaller, but still important- a billion dollar foundation that is a hundred years old at this point, same thing.

So, they're set up perpetually, they have a board, the board chooses programs, and they often rotate the programs from time to time, but basically, they're spending only income. They're spending income on the assets and, typically, it's been (under federal law) you have to pay out a five percent of your assets over a five-year rolling period of time. And so, they will typically spend out, spend five percent. The criticism is made- that you have a lot of money, therefore that is, sort of, that is in the bank that can't be spent. It can be spent if the trustee is one that spent it, nothing legally preventing it, but, typically, because these foundations plan to exist forever and all the research shows that if you spend more than six percent on an annual basis, [if you spend more than that] you can't keep up with your purchasing power. So, the point has always been [to] spend five to six percent in any given year. And so, that's typically what the perpetual foundations do. And the list of their accomplishments is legion. I mean, my first book called "The Foundation: The Great American Secret" discusses a hundred examples of foundations that have made world-class differences. And you can't make world-class differences unless you do them very carefully.

The emergency, national emergency response number, for example, was created by the Robert Wood Johnson Foundation in 1972. There was no national emergency response telephone number in the United States, and the president of the foundation, who- really bright guy who had been the Dean of the Johns Hopkins School of Public Health- said we need an emergency response number. So, they really organized the emergency response business all over the United States. They put the emergency responders together, [and] they created it and then they turned it over to the federal government and said "You operate it. We've built it, you operate it, and do it." Then, of course, they're still doing it. That's a good example of something that's so obvious when you think about it, that it makes enormous sense to do it but nobody had thought of doing it.

KB: It's in a very interesting example. So, as conditions in society changed, foundations are changing along with them. In Detroit is a very interesting case study of that where several foundations step forward to help that city pull out from the disastrous circumstances it was experiencing. Can you tell us about that?

JF: Well, it's an unusual story because, typically, foundations do not go about saving cities -- individual cities. This is an example of something that came together largely because of combination of distinct circumstances. You had the fact that the Ford Foundation was, it was and is, chartered in Michigan, and there's been significant pressure from the Attorney General of Michigan for the Ford Foundation to spend more money, more Ford money in Michigan. So, you had that going for it. You had the fact that the night, what was then The Knight Ridder newspapers owned the newspapers and in Detroit. You had the fact that you had one of the most talented visionary foundation presidents, the foundation being- his name is Rip Rapson, who is the president of the of the Kresge Foundation. He's been here to speak several times annually. I think he's due for another visit next year. In any event, they, this guy was leading the effort to mobilize the nonprofit, particularly the foundation sector in the Detroit area. He'd done the same thing when he was president of the Knight Foundation in Minneapolis, and when he moved, when he decided to move to run the Kresge Foundation, he took on the same role there. So, he began working with the city government, with the federal government trying to figure out things that needed to be done, you know, and very interesting. Without what Rip Rapson had been doing, he could not have put together the so-called "Grand Bargain" there because he had experience, he knew all the players. And so, ultimately, the Ford Foundation decided that it would put in a$125 million dollars, which was a large grant for, even for the Ford Foundation. The Kresge Foundation decided that it would put in $100 million dollars. The Knight Foundation ended up, I think, putting in something like $30 million dollars. They ended up putting together a pull of something like six or seven hundred million dollars, which ended up basically enabling the threatened sale of the art in the Institute, Art Institute of Detroit from occurring and preserving it which, everybody was thankful for.

So, what you have is an example that's not likely to repeated, because the circumstances that prodded about were so individually different and where there was a history there it. It is in no way to diminish the significance of it because it is the largest- at this point- the largest municipal bankruptcy threatened and it was averted as a consequence of decisive, generous action by a group of foundations.

KB: But it must be a nice example of foundations being nimble and being able to respond fairly quickly to very important social circumstances that couldn't have been predicted.

JF: Well, you're absolutely correct, and foundations do that all the time. They don't do it quite as spectacularly as the Detroit example is, but they do it all the time, and the reason they are able to do it is that foundations are all basically just pools of money that are not obliged- for the most part. Many of them have, they all have budgets, they have plans to the budgets, but they've no claims on the money. And if something comes along, like a financial downturn in the country, you know, many of the large foundations shifted from spending 5% of their annual budget to 6, 7, or 8 percent or, in some cases, 9 percent of their budget because they're nimble and they care about things. And so, they are able to make those changes very easily. That's the- I think the foundations, the perpetual foundations, as being America's, basically, social sector bank, because they can deal with unanticipated problems easily because they've got a lot of free money. You know, the assets of the foundations in the aggregate at this point, and of the we have almost a hundred thousand foundations in the United States. And, the aggregate assets at this point is somewhere between, I would say, approaching 800 billion dollars. That's a lot of money in the assets.

And, of course, a lot of the critics of the perpetual foundation say, “Well, you should be spending that money." The problem is, if you spend that money, you don't have any bank, because the purpose of a bank is to accumulate money and use it when you need it and my point about the perpetual foundations is that, without the perpetual foundations, the United States would simply not have the social sector that we've got. Every one of the large organizations- and this is not an exaggeration, it will sound like it- but every one of the large non-profit organizations in the United States has been either founded or founded and nurtured by perpetual foundations. Take for example the Natural Resources Defense Council, which is one of the two largest organizations in the environmental field. It was founded by the Ford Foundation, which gave four graduates of the Yale Law School money in 1967 to build NRDC, and it supported it until the point where it became self-sufficient. So, you got now, you got a million and a half dues-paying members of NRDC. They were not there before, Ford nurtured it long and enriched it.

Same thing with the Environmental Defense Fund, where you've got a second organization- Ford did not start it- they came in in the second year with other foundations. But the point is, you look at the Human Rights Watch, you look at the organizations that are working in the food field- which you know extremely well- these were all these are all foundations that were financed, nurtured, and sustained over a long period of time by perpetual foundations. This is not something that "giving while living" people find attractive. They want a big bang in the short run. They don't want to spend 20, 30 years in building organizations that are going to serve society.

KB: So, Joel, you have been diving into this with a level of depth that nobody else has, and your perspective on this is really interesting- so let me ask you a question. Let's just say you had the wealth of the magnitude of some of the people we're talking about, like Zuckerberg, or Gates, or Buffett. What would you do?

JF: I would I would develop a plan, an asset allocation plan to give away money to things that strike me that can make a difference. There's some things that you can do with a short run might make a significant difference. I was reading an article in The Economist- I believe it was a couple of days ago- which is talking about a new means, a new scientific means of recapturing carbon dioxide. We all know that carbon dioxide is one of the major contributors to pollution of the planet, global warming, everything else. Well, it happens that no less than Bill Gates Jr- among two or three other people- have started businesses designed to figure out how to recapture carbon dioxide. And so. if I had a lot of money that I wanted to spend, that would be one of the things. I mean, I wouldn't bet the farm on any one of them, but the fact is that's the kind of thing that would benefit [society] if somebody has a lot of surplus dollars and wants to put them through possibly good use, almost always highly risky. I would do something like that.

On the other hand, I would spend part of it providing support to organizations, universities, think-tanks, and others that are working in fields. Atlantic Philanthropies did that- it created a partnership between Trinity College in Dublin and the University of California at San Francisco to work on the problem of developing leaders for the field of cognitive-impaired people, basically, people who would work in those fields. So, you know, you've got, and that's basically what a lot of the more sensible wealthy individuals have done. They recognize that they can't solve the problems themselves, nor can they by simply creating an institution to solve it, but they can identify institutions that are going to be around for a while and that will, in fact, devote themselves to it. So, - asset allocation is really important.

There's some things- I would spend some of it, I think, alleviate poverty with respect particularly to hunger. Once you spend the money on hunger, it's gone, and if you haven't, if you're not focusing on how to prevent hunger, then there's not going to be any money there for you [to] spend in trying to figure out how to prevent hunger. So, the tradeoff between spending it on something now versus spending it on something that will eliminate or mitigate the problem, it's one that Andrew Carnegie talked about, John D. Rockefeller talked about, and we're very much committed to. So, that's the kind of thing I would do. I would develop rational asset allocation plan that said, Here are the things that seem to me that can reasonably make a difference in the short run, and here are the kinds of things I can't make a difference in the short run, and I'm going to put a lot of money into them, gradually, thoughtfully, over the long run.

KB: Well, that's a great way to end. They have your overall perspective on that, so thank you for so much for joining us today.

JF: Thank you for inviting me. As you can see, it's a very interesting question.

KB: Boy, it sure is.

JF: And one that's extremely urgent and that society needs to figure out how to deal with it, and people need to understand it. That's the reason I wrote the book. I wrote the book because my sense is, it's a lot of people are basically trying to figure out how to do something in the short run that they can't really do in the short run, and they need to think about how to get more results for what they want to do in a more responsible, reliable way.

KB: So, my guest today has been Joel Fleishman. Joel is a professor at Duke University in the Sanford School of Public Policy and he directs two centers- the Heyman Center for Ethics Public Policy and the Professions and the Center for Strategic Philanthropy and Civil Society. Joel's new book is called "Putting Wealth to Work: Philanthropy for Today, or Investing for Tomorrow", and it's a terrific book, indeed. We'll have a link to that book at our website policy360.org. And, if you to the website, you'll also find a video playlist of the conversations Joel has had with some of today's top foundation executives, including one one that we talked about today- Rip Rapson, the President of the Kresge Foundation, who talks about his experience in Detroit. That's at our website, as I said, policy360.org. Until next time, I'm Kelly Brownell.