

— EDITED TRANSCRIPT —



HUDSON INSTITUTE'S
BRADLEY CENTER
FOR PHILANTHROPY
AND CIVIC RENEWAL
presents a discussion of

BUFFETTED BY FORTUNE: What Does the Buffett/Gates Gift Mean for Philanthropy?

Friday, June 30, 2006 • 12:00—2:00 p.m.

The Betsy and Walter Stern Conference Center • Hudson Institute, 1015 15th St., N.W., Ste. 600

We're all still trying to get our arms around Warren Buffett's announcement this week that he's giving away 85% of his \$44 billion to philanthropic causes, the largest of which is the Bill & Melinda Gates Foundation, itself already a \$30 billion enterprise. The second wealthiest man in the country handing off much of his fortune to the wealthiest, resulting in a foundation that will be larger than the next nine richest philanthropies in the nation, giving away some \$3 billion a year by 2009—an amount greater than the gross domestic product of forty nations. It's time to step back and try to put these staggering numbers in historical, cultural, and political perspective.

At this discussion on June 30, just days after Warren Buffett made his stunning announcement of the gift, a panel of experts were brought together by Hudson Institute's Bradley Center for Philanthropy and Civic Renewal to do exactly that. The panel included **ELIZABETH BORIS** of the Urban Institute, the National Committee for Responsive Philanthropy's **RICK COHEN**, **JAMES ALLEN SMITH** of Georgetown University, and the Philanthropy Roundtable's **ADAM MEYERSON**.

PROGRAM

11:45 a.m. Registration, lunch buffet
12:00 p.m. Welcome and panel discussion
12:45 Question-and-answer session
2:00 Adjournment

THIS TRANSCRIPT WAS PREPARED FROM A TAPE RECORDING AND EDITED BY KRISTA SHAFFER. To request further information on this event or the Bradley Center, please contact Hudson Institute at (202) 974-2424 or e-mail Krista Shaffer at krista@hudson.org.

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PROCEEDINGS

WILLIAM SCHAMBRA: Good afternoon! My name is Bill Schambra, and I'm director of the Hudson Institute's Bradley Center for Philanthropy and Civic Renewal. As the name suggests, the center is funded by the Lynde and Harry Bradley Foundation in Milwaukee, Wisconsin, and focuses on the complex and occasionally problematic relationship between philanthropy and the health of American civil society.

The center, which is to say, Krista and I, welcome you to today's panel, entitled "Buffeted by Fortune: What Does the Buffett/Gates Gift Mean for Philanthropy?" When Warren Buffett earlier this week unveiled his gift of some \$31 billion to the Bill & Melinda Gates Foundation, it was entirely fitting that the trio made the formal announcement at the New York Public Library on Monday morning. After all, that building is the crown jewel of a municipal library system that benefited immensely from the giving of America's first mega-philanthropist, Andrew Carnegie, in whose footsteps Warren Buffett was self-consciously treading. Indeed, there is probably no more a universally recognized symbol of the good that private philanthropy can do than the Carnegie free libraries, still to be found in scores of cities and villages across the United States.

But we can learn more than one lesson from the Carnegie Corporation's experience with libraries. We all know the inspiring story of his vision for his gifts. He would fund the physical structure, but the community itself would have to come up with the money for the books inside. This approach, Carnegie believed, would cultivate a sense of joint civic proprietorship and of mutual democratic responsibility. And the library would open the cultural riches of the world free to any enterprising individual wishing to take advantage of them. This was a form of large-scale philanthropy that nonetheless strove to respect the democratic rights and duties of the smallest town and the humblest citizen.

But behind this inspiring story is another rather disquieting one, related in Ellen Lagemann's splendid history of the Carnegie Corporation (*The Politics of Knowledge: The Carnegie Corporation, Philanthropy, and Public Policy*, University of Chicago Press, 1989). Even as Carnegie was on the road cutting ribbons for his new libraries, his trustees and staff were working quietly behind the scenes to bring the program to an end. This was the new age of twentieth century Progressivism, after all, and notions like local civic philanthropy and individual initiative were so *nineteenth century*.

In the new age, self-governing citizens reading whatever books struck their fancy would be reshaped into passive clients who would be shepherded into the complex world of modern science and technology by the new information professional. By 1917, the library-building phase of Carnegie had come to an end; the new library science phase of Carnegie had begun. Soon, Carnegie was funding not libraries, but professional training programs for librarians at universities, including a graduate school; scholarly studies of the state of library education; and the new American Library Association (now the oldest and largest library association in the world, online at <http://www.ala.org/>), which soon became the official credentialing agency for library science.

So from that building in which the Buffett/Gates press conference took place, we learn this lesson: However indisputably noble may be the projects currently on the Gates Foundation agenda, agendas change. And typically they change *away* from the naïve and concrete enthusiasms of the founder, whose giving generally reflects and reinforces the democratic capitalism that produced his wealth toward the seemingly more sophisticated and abstract agendas of the professional staff, who are often far less sanguine about the capacity of democratic capitalism to meet the complex demands of contemporary

society. The day may well come when, say, the Gates Foundation's current high school reform project will seem as quaint and diminutive as one of Carnegie's village libraries.

That behooves us to take a deep breath after the first wave of enthusiasm for Monday's announcement, and look at some of its larger historical, institutional, and political implications. For now, suddenly, we have in our midst a \$60 billion philanthropic colossus, one as large as the next nine wealthiest American foundations put together, including yesterday's goliaths, like Ford, Lilly, and Rockefeller. Even the smallest changes in the Gates agenda are likely to reverberate throughout philanthropy and civil society at home and abroad for better or worse.

To help us think through some of these implications, we have assembled a panel of distinguished students of American philanthropy today – and this will be the order in which they will speak:

- James Allen Smith, one of the nation's leading historians of philanthropy and public policy research institutions, who now holds the Waldemar A. Nielsen Chair in Philanthropy at Georgetown University.
- Elizabeth Boris, founding director of the Center on Nonprofits and Philanthropy at the Urban Institute. It would be difficult to point to a single significant piece of knowledge about the nonprofit sector that Professor Boris herself didn't generate, often for the first time.
- Rick Cohen of the National Committee for Responsive Philanthropy, a philanthropic watchdog group and a progressive advocate for increased giving to disadvantaged populations.
- Adam Meyerson, president of the Philanthropy Roundtable, a membership association for foundations interested in preserving the American legacy of democratic capitalism.

So, Professor Smith?

JAMES ALLEN SMITH: Well, thank you, Bill, and thanks to the Center for putting this together on such short notice, and for drawing such a remarkable crowd, but this probably is the most remarkable philanthropic news of the last thirty or forty years. I can't think of anything that would compare with it.

Let me say at the outset that as one who has spent more of my career in philanthropy than in the academic world, Bill and I have some differences over the nature of professional philanthropy and the role that those of us who try to bring some philanthropic expertise to our grantmaking might bring to our philanthropic responsibilities. But we'll table those differences for the moment and let me try to provide some context, as I see it, to this remarkable Buffett gift.

It is remarkable in scale, as Bill has suggested. Andrew Carnegie's lifetime giving was on the order of about \$331 million over a forty-year period. I'll leave it to Elizabeth (Boris)'s colleagues at the Urban Institute to figure out what that \$331 million over forty years might represent in current dollars. John D. Rockefeller, Sr., over a more than ninety-year lifespan, and he began his giving while he was still in his teens, gave away something on the order of \$540 million. His son, John D. Rockefeller, Jr., gave away about \$537 million.

Now we can use whatever multipliers we choose – ten, fifteen, twenty – we still don't approach the magnitude of either Bill Gates' giving or of Warren Buffett's. The ten million shares of Berkshire Hathaway stock, valued at something in excess of \$30 billion, but given away at a rate of only 5 percent of the shares a year, may well in the end, over a twenty-year period, represent a gift of \$60 or \$100 billion. Who knows how long Warren Buffett will continue to compound, as he has so successfully done, but it is an extraordinary gift on a scale that we have not seen ever before. And again, to put this in a

different kind of philanthropic context, of the \$510 billion, roughly, of aggregate foundation assets today, we are seeing an increase of on the order of 10 percent by one individual.

Scale, if we look back, transforms philanthropy. Transformation in scale, at the end of the nineteenth century and in the early twentieth century, as foundations moved from George Peabody's \$2 million, Slater's \$1 million, to the foundations of Rockefeller, Carnegie, Margaret Olivia and Russell Sage, (the) Commonwealth (Fund), (the) Milbank (Memorial Fund). Suddenly we had foundations that were ten, twenty, fifty times larger. And they brought about some of the most remarkable changes in American society early in the twentieth century. These are the things that Bill and I continue to debate, for better or for worse.

Another way, however, of looking at the scale—and I may leave some of this to Elizabeth—is to see the scale in relationship to social needs, to public benefit. The Carnegie giving early in the twentieth century for education, just to give you one data point, was in excess of \$5 million a year. Giving for higher education, mainly to land-grant colleges, by the federal government was less than Carnegie giving. Rockefeller giving for public health internationally in the early part of the twentieth century took place in the absence of a World Health Organization, which was created in 1948; a National Science Foundation, created in 1950; or a National Institute of Health. We have to look at the scale of this in the context of how other entities—public and market—are providing the public benefit.

Enough on scale. The second thing I think that is important is to look at what Warren Buffett understood about structure as he made the gift. I couldn't help but think, because my career began as a medieval historian so I think a lot about anonymous giving and much older practices than those of the twentieth and twenty-first centuries, that in relinquishing in fortune to a foundation named by another individual, Warren Buffett is engaging, despite press conferences this week, in something that is akin to twenty-first century anonymity. He is not naming anything for himself; he is not necessarily leaving behind a name on any program, or any building, or any project. But in structure, it was remarkable for me to hear him talk this week about the relationship between what he had learned in business and what he was taking into his philanthropy from that.

He knows he is a good compounder in the marketplace, but he learned early on what it took so many other wealthy donors a long time to learn—it took Carnegie twenty years—that it's a lot harder to give it away than it is to make it. And he relinquished the fortune to people whom he felt were capable of giving it away more thoughtfully than he was able. I hope other donors will learn some of that as well.

The third thing I will say quickly, and this pleases the historian, philanthropy is so often forward-looking, so often subject to a kind of amnesia—donors assuming that they have a new idea, a new challenge, a new problem that the world has never seen before and that they can somehow do it differently. We heard a lot of donors in the 1990s with their new Silicon Valley wealth talking about new models, new approaches, and they were quite disdainful and disparaging of the older work, of the great foundations.

It is remarkable that Bill Gates and Warren Buffett have both looked back, and they have drawn on some of the lessons of the twentieth century. And as I was thinking about what I might say today, I kept asking myself, what was it that Bill Gates saw in the Rockefeller and Carnegie examples that he admired the most? What was it that Warren Buffett saw, and I don't know how many of you learned this this week, as I did—it was Warren Buffett who actually gave Bill Gates a copy of "The Gospel of Wealth," the great 1889 essay of Carnegie, to read and to begin to think about his philanthropy. Here are some of the lessons I think that the Rockefeller Foundation drew and that Gates and Buffett now believe. This is

actually drawn from a review of the Rockefeller program in the 1970s. So they had had sixty years of experience, at this point.

The first was to avoid, in the words of Frederick Gates, no relation to Bill, but John D. Rockefeller's first philanthropic advisor, avoid scatteration. Remain focused on key problems.

Secondly, understand that a foundation has international commitments. Problems know no national boundaries.

Third, if you must, assume direct operating responsibility for a program. Commit staff to the field, to the locality.

Fourth, training, whatever the field, has the greatest long-term benefit. We see that in many of the Gates' programs in sub-Saharan Africa, where they know that the training of nurses and doctors is essential.

Fifth, basic and applied research are always intertwined, and research is always intertwined with dissemination.

And finally, to come back to where Bill and I may disagree the most, foundation work is professional work. To address the most complicated problems of our time, we need people with expertise, with knowledge of the areas in which people are working.

Thank you.

ELIZABETH BORIS: Thank you, Bill. It's a pleasure to be here, and I'm very pleased to be able to make a few remarks about this extraordinary gift. Of course, having the historian go first means that he covers all of the big issues, and I'll fit my remarks kind of around his.

I've been doing research on philanthropy for about twenty-five years, and I think that this gift, this turning over of a huge fortune from one wealthy individual to another, the two top ones, actually, is unprecedented in a lot of ways. The size of the gift, which Jim really did cover. The lack of naming rights; Buffett does not get his name on anything. The shared control of programs—Buffett will be on the board—but not operations. And what I think is pretty extraordinary is how Buffett retained control of the investment function, and I think that this is maybe a new paradigm.

The gift also raises some enduring questions about the appropriate scale of philanthropy in a democracy; about accountability; governance; oversight. It is possibly a model for our times because of the values that it so clearly articulates in such a leadership fashion. Will it have an impact on other foundations and on other potential donors? Possibly, and in some respect I hope it really does. Will it affect public perceptions of philanthropy and the foundation world, or the oversight of foundations? Possibly. It's probably too early to tell.

So what's new? Scale is new. Jim has covered that pretty well. US foundations gave away about \$33 billion last year, and Gates' giving would be about 10 percent of that. That is unprecedented. Remember, there are seventy thousand foundations out there. That's very concentrated resources. The context is important, however. We have to put foundations in a broader context, and that is, total charitable giving last year was about \$260 billion. Foundations are only about 11 percent of that. And government still is the king of the heap in terms of money that is going toward all of the causes foundations care about.

A new report from Hudson that I saw, though, the *Index of Global Philanthropy* (available online at <http://gpr.hudson.org/>) gives us some perspective on giving to international development issues, and right now about \$3.4 billion is given by foundations, and about \$20 billion by US government for development. So there is a smaller margin there.

What's not new about the gift? Well, donors often give their money to others. Think about community foundations that give money in the donor's name. Sometimes they have their names on the gift; sometimes they don't. Foundations sometimes but not very often consolidate. Those are usually related entities—think the Pew (Charitable Trust) or the Wallace Foundations. And while the scale can be large, this one is out of the ballpark. Philanthropists have often tapped the daughters and sons of wealthy friends to run their foundations—nothing too new on that—but usually they call the shots; they keep control of the programs. There are, of course, exceptions. MacArthur gave his money away and turned his back on the foundation. The motivations that are articulated, particularly by Warren Buffett, are not new, either. “Giving back to society.” Those we find in lots of donors, and they are pretty well documented.

What (else) is not new? Well, scale and motivations really do reflect the donor, when you study philanthropy. It's typical of Buffett, hearing about him, reading his interviews, that he would invest in people who he thinks can do a good job. He has assessed their competency and their results—he says so—and he thinks that they can do a better job than he can. And I think it's this kind of honesty that we're valuing. It's clear that he approves of the Gates' priorities—Bill and Melinda Gates—and the way they've structured and carried out and evaluated what they're doing. He even admits, and I think this is a good lesson for modern philanthropy, that he is too impatient. He wants direct, immediate benefits and results. He wants to see what's happening. And philanthropy doesn't move at that pace. He thinks Bill and Melinda Gates are doing important things.

Buffett is also investing in values-based leadership—his stance against hereditary wealth, the fact that he is not leaving enormous wealth to his children, and that he is advocating against the repeal of the estate tax. He is now taking a leadership position and advocating for what he believes in. It is reassuring to see today's mega-wealthy endorsing civic values, the responsibility to give back, and showing that it is more than just their expertise, their brilliance that has gotten them to the positions that they're in now. They came from a society that provided the opportunities.

In a sense, knowing what Buffett has achieved in his career, it is a singular endorsement of the Gates Foundation by an investor who had demonstrated a unique talent for assessing well-run companies and solid management with excellent prospects. That ought to make us feel pretty good. Whether that assessment is clouded at all by the fact that these are good friends, that's a fair question. But given the track record of the Gates Foundation so far, it seems like there is some analytic, hard thinking going on. And I have to admit here that I am a beneficiary of the Gates Foundation. So, is my judgment clouded? Could be.

What's new is the structure of the gift. What I find really fascinating is that Buffett did not give to the Gates Foundation his \$60 billion. Essentially, he is giving a 5 percent payout over a long period of time. He judges—and he said—that he thinks he can invest that money better than the Gates' can. Gates is very good at making the money, but Warren Buffett is very good at compounding the interest. So what we have is 5 percent of the value of those stocks going out to the foundation, and Warren Buffett is betting that he can do much better in his investment than today's foundations are currently doing. Last year they made about 8 percent on their average investment for the foundation world. And Buffett thinks he can do a lot better.

The gift is also strategically structured so that it doesn't hurt, at least in Buffett's thinking, the stockholders of his company. He also expects the stock to keep appreciating so that the gift to philanthropy will be much, much greater over time. Now those who know the way that stocks are pretty volatile over time might say that we've seen other foundations with single stocks or two stocks, and not having divested, they suffer the slings and arrows of the fickle stock market. It's going to be interesting to see what happens.

The strengths of the process, I think, are in the way that the Gates Foundation is being run. And with Buffett we'll be able to leverage those resources. It is collaboration, and it was mentioned in some of the interviews last week. Melinda and Bill Gates early on had some experience with trying to have their vision implemented on a large scale. They quickly learned that government has much more resources; corporations have resources; and that in tandem, they could by joining forces have a much greater impact. The problems that they're dealing with are intractable. They cannot be solved by a foundation acting on its own.

In my years of watching foundations, I've observed that people who come to a new foundation often have the attitude that they know how to do it right; we know how to do it better; and be damned with everything else. I think there has been a great learning process that has gone on, and that is also something that Warren Buffett has been watching.

It's also a pragmatic approach. It's not ideological. Buffett very clearly says, the capitalistic market made me a very rich person, but it can't do everything. And there are certain areas where there need to be incentives, and where philanthropic money can provide the lubricant, if you will, to make some things happen that wouldn't happen because there is not a profit involved.

The other thing I see that I think is important is advocacy. The Gates Foundation has, in its experiments, learned that one has to exert influence and advocate and help other people understand problems so that people can work together.

So while, if we think about the process of the organization itself, it's efficient—the foundation has three people, that is also possibly a down side. When you think about the “Principles and Practices for Effective Grantmaking” that the Council on Foundations promotes for the foundation field (and can be found online on the Council on Foundations' web site at <http://www.cof.org/Learn/>), it's about diversity—bringing in diverse voices to help inform a foundation's governance. That may be an issue down the road. There are advisory committees. There's not a formal structure for the advisors at this point in time. That's probably something that is evolving.

A gift of this size inevitably raises some questions about whether or not the equivalent of \$60 billion in assets invested in decision-making by three people is good for society. Any three people. The question of accountability that dogs foundations is probably going to be raised more and more. Three people who have made their money in business who are acting for the public, in the public interest, presumably, what kind of accountability is there for them? And those of us who have studied the foundations know that it is very, very weak accountability. There is ethics. There's a duty of charity. And there's a duty of care. But really, we're relying upon the good sense, the brilliance, the well-meaning of three extraordinary people.

Right now, government oversight of foundations is minimal. And we have to ask the question, is relying on these three people to do the right thing appropriate for society, with this scale of gift? We always

have relied on the good will and the intentions of our philanthropic leaders. Should there be standards for the size and composition of boards of such large foundations? Right now there are none except kind of an ethical principle. Is there a need for more oversight of foundations by government? These are the questions that I see us grappling with, and it's too soon for us to give answers to those, but I think these are the issues we have to consider.

Buffett's stunningly generous gift is also likely to revive the debate about how much is enough philanthropy in a democratic society. Even if the consensus is, more is better, and those of us in this room I think would agree with that, how can society ensure that foundations are both free to innovate, free to solve problems in the face of Herculean challenges, and yet accountable to society?

Thank you.

RICK COHEN: It's great to be here with people who I think know so much about all of this, and an audience, with people here who obviously know a great deal as well.

I'll start with the disclaimers. I get funding from the Gates Foundation, too, so you should take my comments with the appropriate concern. But I think that I'm honor-bound, based on the role that I think Bill (Schambra) has given me, as well as my organization's purpose, to play the role of critic. And I'm going to raise at least some questions that I think are very concerning, but I think that Elizabeth actually raised many of them already. So let me go to it.

I looked at the press coverage of this announcement on Wednesday and found in Google news 1,700 articles. Only 1,700—that probably doesn't seem like much. It's been covered more. And it had commentary from Left and Right, for-profit and non-profit people, and the commentary was uniformly adulation. Political commentators from Bill Buckley to Nora Ephron, from nonprofit people, from Paul Schervish, to David LaPiana basically competed for compelling, quotable statements. Basically to signal something, I think. One commentator described the foundation as an apostle of democracy. Another said the merger was the beginning of the new golden age of philanthropy. And a third person said, this is the way to change the world. And another, and this goes right to what Elizabeth just said, said that this is the model for how the foundation sector could be effective and accountable. So with all of that kind of signaling of adulation, I thought we could just summarize it all and basically adapt something from a Broadway melody of the 1938, which would be, everybody can basically say, you made me love you. I didn't want to do it. I didn't want to do it. You made me love you. All the time you knew it. I guess you always knew it. And so forth.

I think there are issues that ought to be concerns. Jim and Elizabeth have raised some. I've seen very few people—Stanley Katz from Princeton has been one of the only people I've seen in the press who has been raising very thoughtful questions. And as much as I admire the willingness of the Gates Foundation to take on serious public issues of the day in a major way, and I've been a particular admirer of their work on public schools and public education—that doesn't get mentioned very often—the merger still raises a number of concerns—I call it a merger, in terms of philanthropy.

First, a number of the commentators have made what I think is the entirely unjustified and unjustifiable claim that by virtue of its mammoth size, the 200 percent Gates Foundation is inherently more accountable than smaller foundations, that somehow gargantuan size equates with accountability. And, of course, this stream of commentary sort of leaves aside the question of what do we mean by accountability. And some of it seems to be focused more on the personalities of Gates and Buffett themselves, that they're both sort of among the more unassuming billionaires you'll find. Gates tends to

show up wearing a blue blazer and no tie, in most cases. The wizard of Omaha lives in a modest home in Omaha and swigs five bottles of Cherry Coke every day. So that they're sort of normal people you can trust. There's also the assumption that I see in the press that the fusion of these corporate titans behind philanthropy brings a business-like, bottom-line mentality to philanthropy, and that that itself equates to increased accountability. Some people have said that this is putting business principles into the philanthropic picture. I think you have to take a deep breath on that stuff.

The revived focus, through all of this, on business-like outcome measures that everybody is applauding doesn't necessarily mean good things for philanthropy, for social change philanthropy, particularly if we're talking about big-picture issues. Sometimes the mammoth grantmaking, as Jim and Elizabeth said, pales against the scope of the needs. And it requires something more than just counting the numbers. It requires some bigger-picture issues. Dennis Collins, former CEO of the Irvine Foundation, wrote a fabulous piece called "The Art of Philanthropy" (online on the Irvine Foundation's web site at http://www.irvine.org/publications/annual_reports/2000_annual.shtml), and he raised some very serious concerns about getting so focused on the number-counting that you forget what's really important, particularly, again, when you realize that despite how big this is, this is a pittance of resources compared with the size of the problems.

More significantly, we have a notion that because we have two businesspeople at the helm, although Buffett says he doesn't want to take an active role in the philanthropy, as businesspeople who have earned untold billions they are somehow inherently more accountable *because* they're businesspeople. A columnist for the *Boston Globe* said, this proves that, actually, billionaires are simply better people than the rest of us.

Now, one doesn't need the example of Enron or other bad corporations to say that big business isn't always the paragon of virtue. But the histories of Microsoft and Berkshire Hathaway themselves raise questions. What may be accountability for some is not quite accountability for others. Microsoft has a long history of skirmishes with other corporations. It has been subject to anti-trust litigation and so forth. Buffett, despite his home-spun style, is hardly an open book. His company has a history of resisting disclosure and transparency. Joel Fleischman, who is one of the other great commentators on philanthropy, has a new book coming out on the importance of transparency—not just the legally mandated transparency for foundations, but going beyond that, talking about what is really going on in the learning process. And I would hope that from a business perspective, we don't get caught up thinking that because these are corporate titans, that they are automatically focused on transparency and accountability. In fact, as Elizabeth and Jim both mentioned, this raises governance questions—this is a foundation that is going to be governed by all of three people—or two people, because Buffett wants to play an inactive role.

The donation of Berkshire Hathaway stock is hardly an arm's length transaction. It's not just that they're friends. Gates is on the board of Berkshire Hathaway. He joined in 2004. And he is a large percentage owner of Berkshire Hathaway stock. So this is not simply to guys who met playing poker on the Internet and decided to get together.

There's a third question. I think it raises dangerous concerns that were expressed in Tuesday's editorial page of the *Washington Post*. The *Post* said, basically, large foundations are more effective than what the *Post* called "smallish foundations." And when you read Buffett's analysis of why he picked Gates, what he ultimately concluded was that Gates is the best foundation because it's the biggest. And he said, who wouldn't want to have Tiger Woods play your front nine if you're in a competition and you can choose him.

Now I feel like an unwitting disciple of E. F. Schumacher's small-is-beautiful theories. But while one might say that there are some foundations that are too small to be effective and efficient, or economical, the bulk of small foundations to my knowledge show no less effectiveness than large foundations. They are closer to their constituents in many cases, closer to their communities. And because of that closeness, many times, they're much more accountable to the people they serve than sometimes the large, institutional foundations. They frequently put out more money in terms of higher levels of grantmaking (percentage of assets) than larger foundations. They rarely spend as much in terms of administrative costs; they get their money in the hands of the groups that are actually doing the work, when some other foundations often spend it on themselves.

So I would say that small foundations, even though they may be subject to the same weaknesses that Elizabeth described in the overall accountability regime of philanthropy, there is often, in their structure and dynamic, a kind of community accountability that is important to recognize, and I think we shouldn't fall into the trap that large is somehow better.

Elizabeth cited Warren Buffett's comments about the estate tax. But I was struck by his comments about the public sector for their hostility to government. So although he is a big supporter of the estate tax, people didn't report much on the fact that in his press conference, he said some very strong things, and he conditioned the gift to make sure that none of that money ever got taxed or would be subject to government. He basically said that the reason he gave it to the Gates Foundation rather than letting it be taxed was a strong sense that Gates can deliver and government really can't, that the Gates Foundation and philanthropy in general is just more likely to have a greater return on its investment than government money.

Now, I hope that they aren't unintentionally signaling a philanthropy-can-do-it-all approach to the problems they're taking on. And people do sort of look at Gates and Buffett and say they're sort of magical beings with magical powers, but the reality is, people may look at this size of foundation and those kinds of statements and attach a philanthropy-can-do-it-all approach to them, when that's not really correct. And that's already happening, by the way; it's happening to the Gates Foundation. In the fiscal 2007 budget proposals of the Bush administration, if you read the fine print, the proposed cuts in the small-schools program were basically explained away by saying that the government expenditure from the Department of Education would simply duplicate what the Gates Foundation and the Carnegie Corporation are already doing.

So you already have that kind of dynamic of government looking to philanthropy to pay for costs, and I worry that we'll find more and more examples of this kind of development. In fact, since I get to play the liberal apostate role on Bradley Center panels, I was very surprised that many people who are very strongly supportive of government's role and democratic values endorsed the concentration of so much wealth in one institution simply because we agree with the positions of Gates and Buffett as opposed to not agreeing. So I was worried that we were missing some of the democratic dynamic here. They're taking on problems on their own terms, on their own timetables, based on their own decisions and their own whims. There's no process, no matter how much they have advisory boards and so forth, for public debate and dialogue.

If you look at the issues that they've taken on, there is a great overlap of the issues of the Gates Foundation with the Millennium Development Goals, goals that are publicly debated by governments around the world, with due dates to be met in 2015. Yet when you heard Bill and Melinda Gates talk about it, they define their objectives as being met within their lifetimes. So suddenly the scope shifted

from the public discourse of what does the public think to what do the particular philanthropists decide as the timetables for their goals. I should say that Gates CEO Patty Stonesifer sent out an e-mail to her grantees just yesterday (June 29) saying that she is quite aware of this issue, and she is committed to making sure the foundation doesn't get put in that position. But you can see how some statements could lead them in that direction.

And finally, I want to end with one item that they're actually doing. In the press conferences about the Buffett statement, Melinda Gates discussed—and I think she was correct—an important constraint in their efforts to eradicate major illnesses. She talked about the fact that it was impossible to get people in Africa to swallow pills for medication when they're so malnourished. They didn't have the strength to do the swallowing.

What was interesting about that is that here you have a foundation that is very strongly committed to the values of science and technology. You read about Gates that he is an autodidact; he consumes books that are about AIDS and malaria and biochemistry and virology. Yet the problems that Melinda Gates was identifying as a symptom are not problems of science and technology, but issues of poverty. In a related way, they also are problems of the ability of social and political systems to deliver the means for eradicating poverty. And although I think that the Gates people are obviously incredibly brilliant people, they have to realize that sometimes these problems are not solved by science and technology. They're solved because they are social, political, economic, and issues that require other kinds of approaches. These are poverty issues. You're really talking about extreme poverty, and they made a point of wanting to solve extreme poverty.

I went to the Gates Foundation web site to search for what their articulation was for their poverty strategy. And they had a great deal about the role of health and medication as a component of addressing poverty. But they had no analysis, no articulated analysis of what it means to address poverty, given the fact that poverty itself is not just a scientific issue. The fact that the Gates Foundation is going to double its colossal size doesn't mean that its technological prescriptions are going to be necessarily that much more effective. The issues aren't necessarily technological.

Now, I know the Council on Foundations has made poverty one of its thematic issues, going forward. My organization just wrote about the Northwest Area Foundation and its conflict over poverty reduction strategies where you have a problem of technological solutions foundering on the shores of dealing with real people in real communities. I would hope that the Council would take this kind of issue on in the example of both what the Northwest Area Foundation is doing and the Gates Foundation to address how do foundations really get involved effectively in addressing poverty.

Let me just tie it up with one last comment, and it really repeats what Elizabeth and Jim had to say. You talked about the size of the foundation being larger. But I think of something else that also is related to what Jim said: The spending budget of the new Gates Foundation will be larger than the budget of the World Health Organization and larger than the budget of UNICEF. The investment money that they will be earning on an 8 percent return will be \$152 every second of the day, which is an amazing amount of money.

I don't question the philanthropic commitment of Bill and Melinda Gates. I think they are genuinely concerned about taking on critical issues. But we have to take heed in our society about the ever-increasing concentration of wealth in our society, and what it means. We're the third most unequal industrialized society in the world, trailing only Russia and Mexico. The top 1 percent of our population holds 33 percent of the wealth and 42 percent of stock.

And I think this also relates to philanthropy—that we should be thinking about what it means to have such a huge concentration of philanthropy as well, and where that takes us in terms of where the sector is going. Last night, my Windows XP operating system crashed, and I wasn't able to effectively e-mail my colleagues, so I hope that this gives us a chance to think about rebooting philanthropy a little bit.

ADAM MEYERSON: Good afternoon, ladies and gentlemen. I think it's appropriate that we're discussing this subject on the 4th of July weekend, because what Bill Gates and Warren Buffett have done, their extraordinary partnership, is really as American as hot dogs and dim sum and enchiladas.

America is and always has been the most charitable country on Earth. And there are three reasons for that. One is that we're a religious country. And religion has always been correlated with charitable giving. Second is, we have a can-do spirit. Each individual matters, and it is expected that every individual will make a difference and can make a difference and should make a difference. And third, we've had since the beginnings of our republic a strong connection between our business culture and charity and philanthropy. Whether we're talking about John D. Rockefeller or Carnegie or Leland Stanford, or Julius Rosenwald, or Bill Gates and Warren Buffett. Great business leaders in this country have sought to be great philanthropic leaders. That's part of their image as business leaders. And it's not just because they have the money to do that. It's because they have vision. They have a passion to build organizations. They have the passion to innovate, to serve other people, to achieve breakthrough results and not to accept just incremental improvements. What Warren Buffett and Bill Gates are going to do now is inspire even more business leaders to carry on this tradition.

Warren Buffett is the greatest stock picker in America. And he had an opportunity to decide, here, what philanthropic stock to pick—or he could have picked a set of stocks. Maybe one could ask why he didn't pick a set of stocks. What philanthropic stock would he pick? And it's interesting some decisions he made about what not to pick. For instance, he is a principal shareholder in many corporations, but he decided he did not want to achieve his major philanthropic legacy through corporate philanthropy. That's not a critique of corporate philanthropy, but he is investing in the Gates Foundation, not in Microsoft, for his philanthropic legacy.

Second, he did not choose one of those great staff-dominated foundations, some of which have departed from the political and philosophical principles of their founders. He chose a foundation run by living donors, Bill and Melinda Gates. And another condition he has established for his grant is: That money will keep coming only if Bill or Melinda Gates is alive and still actively running the foundation. So, what we see here is a commitment to the idea of living donors guiding philanthropy, and to the notion that much of the future of philanthropy will depend upon the replenishment of ideas—intellectual replenishment; financial replenishment; replenishment from new donors, reinvigorating the field.

Let me say a few words about size. First, as Elizabeth has mentioned, \$60 billion is huge, but it is the \$3 billion per year that will be spent that is 1 percent of charitable giving in this country. I don't think this poses the kinds of concerns about concentration of philanthropic and charitable giving that have been expressed.

Second, and this is important and I agree completely with Rick Cohen here, you don't have to have \$60 billion in assets to be effective in philanthropy. You don't have to have \$60 million. You can be very effective as a small foundation, as a small donor, if you focus your resources and apply sound ideas to your charitable giving.

And third, and again, this has been discussed particularly by Jim and Elizabeth, there is a concern especially in the foundation world, how as a foundation can I possibly make a difference when I'm competing with the Gates Foundation, particularly if I'm working in a field such as education and health, where they're so strong. Won't they dominate the agenda? Isn't that going to pose a kind of chilling effect upon what we want to do with our foundation? Those are legitimate questions, but that question is already facing every foundation in America because every foundation lives in the shadow of the federal government.

Recently, the Philanthropy Roundtable took a group of donors to hear a presentation by Wade Horn, assistant secretary for Health and Human Services. As it has been mentioned, the Gates and Buffett Foundation will have \$3 billion to spend per year. Foundations on the whole have \$35-36 billion to spend, once the Buffett money is added. Wade Horn is just one assistant secretary at HHS, and he doesn't even work with Medicare and Medicaid. His budget is \$45-50 billion. That is one and a half times what all the foundations spend in a year. And he is just one assistant secretary. The National Institutes of Health was mentioned. They have a budget of close to \$30 billion.

Now, that doesn't mean you can't be an effective foundation in biomedical research. Many foundations are. But they have to determine, what is our comparative advantage in the face of this enormous spending from the government? And one reason, by the way, that the Gates Foundation chose malaria and has been quite effective in raising awareness about malaria was that that was an area where there wasn't much spending, and they decided, this is an important area where they could have comparative advantage.

I'd like to make three predictions. One is that twenty years from now, the Gates Foundation will not be the largest foundation in the country. And there are two reasons for that. One is, this is an incredibly dynamic, entrepreneurial economy, and there will be new business leaders emerging, creating larger foundations, and maybe merging and creating those foundations, too. In 1986, twenty years ago, when Microsoft went public, Bill Gates was number 161 on the Forbes 400. He wasn't even on the Forbes 400 the year before that. There are lots of entrepreneurs now in this dynamic economy who will be creating wealth over the next twenty years. We don't even know who they are! And they will come from strange places like Omaha, Nebraska, or another great center of rising philanthropic forces, rural northwest Arkansas.

Another reason the Gates Foundation will not be the largest foundation in twenty years is, there is an entrepreneurial revolution in philanthropy. All kinds of new forms are being created. There are new organizations serving donors. Venture philanthropy partnerships. Donor-advised funds. New kinds of intermediaries that are being formed where many donors will make massive contributions, and some of those may end up being much larger than the Gates Foundation. Philanthropy is today a kind of cottage industry where we will see enormous entrepreneurial development in the coming twenty to thirty years.

Prediction number two: More donors will follow the Buffett example and give through other philanthropic organizations. They may not necessarily give their entire corpus, or most of their corpus, as Warren Buffett has done. They may distribute it among four or five other foundations. But this desire by donors to follow Buffett's example will encourage a very interesting and, I believe, healthy competition among foundations to attract philanthropic capital. And you might be able to see competition, for example, between the Open Society Institute and the Pew Charitable Trusts and the Bradley Foundation and countless other organizations about who has the best model for addressing our most complicated social problems. That would be very, very helpful for philanthropy and would also encourage more giving to philanthropy.

My third prediction is that the influence and effectiveness of the Gates Foundation will depend more on the power of its ideas than on the magnitude of its philanthropic resources. Money alone is not sufficient to solve problems. If it were, we wouldn't be spending \$400 billion on public schools in this country and still have 40 percent of fourth graders not being able to read. You need both money, large resources, and great ideas to really make a difference—or let me restate that: Large resources will be effective only if they are grounded in sound ideas. And the good news is that in Bill Gates and Warren Buffett, we have two of the smartest minds in business coming into this field. I think all of us are grateful for their coming in.

Thank you very much.

WILLIAM SCHAMBRA: Thank you, Adam (Meyerson). Before we turn to audience questions, are there any comments to each other's presentations that you all would like to make?

JAMES ALLEN SMITH: One quick thought on the matter of concentration. When I see the way the Buffett gift is structured, it looks to me like a classic spend-down. He is suggesting that the value of the stock that he transfers each year be spent within that year, with some provisions for carrying forward. I don't think we should see it as the mere addition of \$30 billion, or whatever the ultimate figure is in capital, to the assets of the Gates Foundation. It is an increase in their capacity for payout, and that's a rather different from concentration.

RICK COHEN: Although the questions of concentration exist even without the Buffett addition to the Gates Foundation, so that it's not suddenly a new question that emerges because of Buffett. You have Gates already being how much larger than the number two foundation? Two to three times. So you do have the question, which I believe, Elizabeth, you raised some of the implications of it. It may be less a question of the concentration of assets than it is the influence of institutions. If we have a system of philanthropy that is largely self-regulated because of the weaknesses of the regulatory structure, the question becomes, who influences what gets considered "accountable" or "less accountable." Generally, the history of self-regulation is, the larger players in any sector tend to dominate the structure of, the design of, self-regulatory systems.

So I think there are questions of influence that are legitimate. But I agree with you, Jim, that this is a payout kind of mechanism, and of course, many of us are happy to see higher payout.

WILLIAM SCHAMBRA: Just to reinforce that point, Rick (Cohen), Rick Hess, who does a lot of work on education reform over at the American Enterprise Institute, came to an interest in foundations from that area, and it struck him how very little truth is told in the area of education reform because of the presence of several incredibly large foundations. If you're talking about self-regulation of a sector, that would suggest that there are many spirited voices, always eager to speak up and make a critique of the existing programs of some of these large foundations. If we haven't had that so far, I wonder what the state of affairs is likely to be in this all-new, post Buffett-Gates world.

As you said, Rick (Cohen), aside from the question of whether or not the money is in the bank in one place, the voice with which Gates speaks, now, is going to be pretty resounding, I would say—throughout philanthropy and civil society.

ADAM MEYERSON: I think this is a very serious and valid question to raise, and a concern that very much affects existing philanthropy. There is not much open debate either in print or general

conversation about how effective some of our largest foundations are in carrying out their charitable objectives. I applaud organizations such as Rick Cohen's, which tries to play a very significant gadfly role in this. If we had ten or fifteen more groups such as that, that would be very helpful for philanthropy.

There is a concern that if the Gates Foundation is funding all the experts in a field, they may self-censor themselves in commenting on what the Gates Foundation does. But I would predict that because of the enormous attention that this gift has received, that we will see a huge amount of attention, and we will begin to see large numbers of articles about how effective the Gates Foundation is at carrying out its health objectives, its education objectives, micro-credit, and other issues. That's one of the best gifts that Warren Buffett and Bill Gates have given: the increase in saliency they've given to philanthropy itself, and particularly to their institution. I would predict that we'll begin to see lots of serious criticism, some silly but some very intelligent. And I hope that the Gates Foundation—and I expect that the Gates Foundation—will pay serious attention to that criticism.

WILLIAM SCHAMBRA: Let's turn to the audience. We're honored to have with us today former Congressman Steve Gunderson, who is currently president of the Council on Foundations, and we'll turn to you for the first question and/or comment.

STEVE GUNDERSON: I promise not to make a presentation. I'm delighted that Warren Buffett is into philanthropy. I'm no longer the new kid on the block; there's somebody newer than me. Adam (Meyerson), you talked about philanthropy standing in the shadows of government, and Rick (Cohen), you got into the whole issue of self-regulation. That leads to my question, which is: What is the implication of the size, now, of the Gates Foundation for this whole issue of effectiveness, return on investment, and impact? We have a conservative Republican senator by the name of Senator Grassley who is looking at charitable reform. He has said the next thing is governance. One has to ask the question, what follows? I'd love to hear the thoughts of the panel.

ADAM MEYERSON: One of the great, I think, benefits of the new saliency that we'll see with the Gates Foundation and Warren Buffett is that Mr. Gates himself is going to be setting very high standards and will be required, if you will, by expectations to set very high standards for the effectiveness of the Gates Foundation. And I think one thing we know about him is that he does not accept incremental progress. That doesn't mean he will necessarily achieve his objectives. But he is going to set high standards and is going for achievement. He will hold his foundation accountable for the achievement of those standards.

I think it is not the business of government to determine whether the Gates Foundation is effective. It is up to the Gates Foundation to determine whether it is effective. It is up to government to determine, is the Gates Foundation following the law? Is it using its resources for charitable purposes? But government has historically considered foundations private organizations that make their own judgments about how to achieve their charitable objective. And that should remain. There can be a very lively public debate about how good the Gates Foundation is—and that would be a healthy debate. But it is not the role of government to say, You, Bill Gates and Warren Buffett, should be spending your money in a different way because you're not doing it right. That's for them to decide.

JAMES ALLEN SMITH: Let me try to link these issues of size, accountability, and effectiveness, which I think is the thrust of your question, Steve (Gunderson). I'll just posit I think what most of us up here would agree: Self-regulation has been minimally effective over the years. We know that state attorneys general are underfunded, for the most part. We know that the IRS is underfunded, and the government

accountability mechanisms are weak. I doubt, with a foundation of the scale we see in the Gates instance, that we're going to have the classic issues of self-dealing or of deviation from charitable purpose. The questions of accountability will have more to do with programmatic effectiveness, and I think here is where size can make a difference.

There is a kind of marketplace accountability that emerges when a foundation operates on a scale and with some of the things that we've seen in the Gates Foundation, where they're attempting to build partnerships across the sectors. Whether it's Gates' work with Merck in Botswana, or whether it's their efforts to engage ministries of health, we have a kind of implicit accountability when one tries to build those kinds of partnerships—when people can withdraw from those partnerships; when ministries of health or education can say, we don't want to work with you. I think there's a new level of accountability, given the scale of the challenges that they're willing to take on.

But let me add another comment about accountability. I worry more about accountability as it pertains to working abroad than I do about accountability issues in the US, especially when one works in developing countries where governments are weak, where civil society is weak, and where dollars can go a great distance.

ELIZABETH BORIS: I think that Jim put it very well, and just to add to your concern for working abroad, a foundation that is spending a huge amount of money could take over the priorities of a government, could undercut them, could bring into question their legitimacy, and also that of agencies that are working in those countries. So I think there are some real cautions there, and there is nothing I've seen that would lead me to believe that the Gates Foundation is not concerned about those issues, but I think that it will inevitably arise, and that will bring up some political problems, maybe, that will rebound to us in the United States.

I think some of the governance issues—we have already seen that the Senate finance committee and some others have floated some proposals, for example that there should be a minimum number of board members—not more than thirty, not less than fifteen. I could see that conversation being reengaged and being beaten off again, as it was in the past. So I think some of the proposals around how you structure a foundation and other nonprofits are probably going to be on the agenda.

The other thing that I see coming on the agenda is maybe some push toward indicators of effectiveness. Maybe government really can't tell whether the Gates Foundation or other foundations are being effective. But there certainly is in government itself, with the Government Performance and Results Act. Anyone with contracts with the government is supposed to be reporting on their indicators of effectiveness. We don't really have many good indicators, in the case of foundations. So you might find that conversation joined.

RICK COHEN: That may be one part of the conversation that is very frightening for many nonprofits—being held to a number of quantitative measures that I think often reduce the thinking and reduce the kind of vision that, Adam (Meyerson), you talked about. It is often going against the grain of what I think philanthropy can really do, which is the experimentation, the risk-taking, the testing of new ideas.

Let's put the size question in real perspective. The Gates Foundation even now has assets even now larger than the GDPs of many countries in the world. With the additional capital, it's going to be that much larger. But it raises real questions. I don't think that largeness necessarily means more transparency. I think transparency is a key, whether or not it is mandated by the government. Transparency and the learning that occurs within foundations that gets shared within the sector is critical

to having any advances in the sector. I think the lack of transparency and the lack of shared knowledge and shared learning, even with the advent of some of the partnerships and affinity groups and so forth, is a real challenge.

And as Stan Katz pointed out, one of the other challenges for any foundation, but I think for a particularly large foundation, is that the Gates Foundation doesn't have shareholders, and it doesn't have voters who look at what it does. There's a question of the fact that it is addressing major public issues, whether overseas or here, that is an onus to ask, what do we owe in explanation, in interpretation, in articulation about what we're doing? And I think it's a challenge not just for them but it's a challenge for philanthropy.

I think the Council on Foundations, by raising some of these big issues, is raising I think the substantive accountability question that is beyond government regulation, which is: philanthropy for what? What are we trying to do with our philanthropy? What kinds of issues are we concerned about? Hopefully that's a dialogue that occurs that's not government saying, you must do it this way, or use your philanthropy for a particular purpose, but a dialogue that says, we're not just about accumulating assets and building bigger foundations. We're talking about resources to address critical issues, what are they, and how do we best deploy our resources.

JAMES ALLEN SMITH: Could I add just a brief coda to this, suggesting why it may be more important than we have even indicated. Accountability when one works abroad concerns the legitimacy of civil society. There's what we've seen in Russia with the legislation that will limit the activities of foreign donors, and there are conversations in China of late. Unless we get accountability right in working abroad, we undermine the legitimacy of private US institutions and I would suspect public institutions, in time, to work abroad. And we put in peril the civil society revolution that countries around the world have benefited from over the last twenty-five or thirty years.

ROBERT WOODSON, Center for Neighborhood Enterprise: A small chapter of the 9/11 Commission Report states that one of the reasons we were attacked was a dearth of innovation in our thinking outside the box. The point is, we need innovation in our social economy to solve some of the intractable problems. The question that I have involves the mention of the size of foundations and professional staffs somehow being related to improved accountability. I was at Adam (Meyerson)'s conference, and a young lady said that her father, with a tenth-grade education, came here without speaking the language and amassed millions because he was an innovator, and yet she was proud to say that she had just hired three PhDs to make decisions about how that money is to be disbursed. When you say "accountability," tell me, what does that mean in terms of improving the conditions of people in society?

One final point. One foundation spent \$100 million over a four-year period to reduce youth violence, and their own assessment said that not only did it not improve conditions, but that youth violence was made worse among those people whom they "helped." But no one got fired at the foundation. What is the penalty for not producing?

RICK COHEN: I think we can all take on that question, so I'm not going to be the only one to address it. Let me raise a couple of perspectives on accountability, and I think everybody else will probably chime in. When the money is in the Gates Foundation, it doesn't belong to Bill Gates. It doesn't belong to Warren Buffett. It is money that we have entrusted that foundation to use in the public interest and for public purposes. So we have to realize that there's an accountability level whereby these institutions are responsible to you and me—to both explain what they're doing and to use their money according not only to the law, but to the highest principles of what that stewardship really should imply. So I think we

can draw principles out of that concept of stewardship that would explain, to some extent, different dimensions of what accountability means.

I think that the issue, though, that Bob (Woodson) identified—about what’s the penalty—I think one of the things foundations *can do*, and I think Buffett and Gates have recognized this, and this is why they’ve said that they would rather have the money in foundations than in government—although, again, I’m a government guy—is that you can take those kinds of risks. If you and I were sitting in a government agency and had to acknowledge that we made a bad bet on a particular program that had indications of results that didn’t achieve what we had expected, we lose our jobs. If you’re in a corporation, you lose an investment. A foundation can take some of that risk to do things that the other two sectors are a little more constrained about. In fact, the Gates people have actually talked about some of their bets on health issues which didn’t pay off. Because they are a foundation, they got to be able to do that. However, that doesn’t mean that they shouldn’t have to explain that bet to all of us and share it with other foundations so that we can have that kind of learning. Otherwise, we lose the benefit of that innovation.

ELIZABETH BORIS: I think you’ve covered it pretty well. And I think that Warren Buffett was pretty up front when he said, sometimes they’re going to fail. And there are some other folks who say, if you don’t fail some of the time, you’re probably not doing your job being society’s risk capital and trying out some things. As I looked at some of the materials from the Gates Foundation, I saw that some of their early bets on small high schools have not panned out. The scores have not gone up. They had these programs evaluated.

One of the things I’ll say is that they are keeping at it. One of the down-sides of philanthropy often is that there is kind of the program of the moment, and foundations go from one new idea to another, not sticking with a program long enough to see whether it will really pan out, succeed, or fail. There seems to be enough stick-to-it-iveness there. They will weather some of their bad risks and make them good, which would be, I think, all to the good.

JAMES ALLEN SMITH: Others have used the word “risk.” I’ll introduce an oxymoronic concept of the “good mistake.” And I think foundations have to ask, what are the good mistakes, if, inevitably, they’re going to make them if they take on serious issues. I think a good mistake is where you’ve proceeded thoughtfully at the outset and then disclosed what you’ve learned from making that mistake and try to avoid making it again. The emphasis is not necessarily on quantitative evaluation and effectiveness measures. I think that many of us would agree, that’s often overdone and reduces our capacity to take risks. The emphasis is on evaluation that gets to the narrative—to the stories that foundations can tell, for better or for worse, about what works.

The Green Revolution is something about which a lot has been written, and I think it’s fair to say that to tell the story of the Green Revolution is to tell one of the great stories of foundation initiatives. But to tell it honestly, you also begin to know something of the down-side of the investments in fertilizers and pesticides; of the ways in which, perhaps, landowners have benefited more than the poorest of the poor. That’s the kind of, I think, good and honest mistake. Food certainly got to more people. Nutrition was improved. But there were mistakes along the way.

Large-scale philanthropic enterprises often have mixed results. That is, I think, in part, an answer to Mr. Woodson’s question as well.

ADAM MEYERSON: I'd like to respectfully disagree a little with Rick (Cohen) and argue that private foundations remain private organizations. In thinking about accountability, we ought to distinguish between public accountability and the kind of private discussions that can occur within a free society. Private foundations, private donors in this country have historically been allowed the opportunity to make their own decisions about how to carry out their charitable objectives. That's very much part of the American tradition of charity and philanthropy. The role of government is to make sure they're obeying the law in that; it's not to determine whether they are effective.

Now, the Gates Foundation has established certain objectives, for which it will hold itself accountable, and for which others, in private and in conferences, in magazines, in newspapers, and in discussions can hold them accountable. Will they help lead to the eradication of malaria? Will they help to build an education system in which every child graduates from high school ready for college? Those are the kinds of objectives for which the Gates Foundation will hold itself accountable. And it is very much part of a free society for others to make comments about how effectively they are achieving those objectives.

WILLIAM SCHAMBRA: Before we go on, I just want to point out that we have in our audience today Irving Kristol, who some thirty years ago electrified the annual meeting of the Council on Foundations by suggesting, indeed, that foundations were not exalted servants of the public interest, but were, I believe the expression was, "parasitic on the market." I'm sure the image of parasites still rankles with some foundation folks.

RICK COHEN: One of the great things about this panel and one of the things that I appreciate the most about Hudson Institute's programs is that it has all of us of different perspectives talking about issue where we disagree. What we're talking about I think goes directly to Bob Woodson's issue; we're talking about serious philanthropy. And when Jim talks about good mistakes, I think part of the problem and one of the challenges that we all face—and this is not what I'm asking government to do, and I don't think I was asking government to gauge effectiveness—is for all of us to be pushing philanthropy to address serious issues. And we don't do that enough. Our sector doesn't do that enough.

Frequently, we're not talking about good mistakes, which are fine, we're talking about silly mistakes or silly uses of money, and I think that's something where we ought to take advantage of what Adam (Meyerson) was saying. We ought to be asking questions and raising critiques, and there should be more watch-puppies like my organization (the National Committee for Responsive Philanthropy) out there, raising questions about what philanthropy actually does. I think that's where the accountability question that addresses what you're trying to raise is important.

ELIZABETH BORIS: Just a comment on the effectiveness question. We have in the audience Francie Ostrower, who has done an amazing survey on staffed foundations. She asked them how they think about their own impact and success. She didn't define "effectiveness" for them, but what came out of it is the interesting finding that many foundations have an understanding and they buy into certain indicators of effectiveness—certain behaviors that they should be following in order to be effective—but a good portion of them don't do those things. And so there is a gap between what people believe would lead to effective philanthropy and what they actually implement. I think that's something that we have to take seriously and think more about and try to address.

EDWARD ROEDER, Sunshine Press: The last time Bill Gates was challenged by government on the notion that size does matter was the anti-trust case against Microsoft. And he promptly ratcheted up Microsoft's giving to an extent never before seen in American corporate history. Microsoft went from spending about \$8,000 a year on all lobbying and political contributions to being the biggest corporate

donor ever in the history of the country—in a matter of three years. Given that he can do that kind of thing, and has done it to promote his bigness or the bigness of his enterprises, aren't you concerned that it is pretty much impossible to regulate a Gates enterprise. The result of his spending was that the government in Washington changed from a Democrat who was pursuing an anti-trust case against Gates' company, Microsoft, to a Republican who was pursuing it and then, in the face of continued contributions, decided to settle with Microsoft. How can the law be enforced against somebody this big?

WILLIAM SCHAMBRA: Unfortunately, we're short on anti-trust experts on the panel, but by all means, who would like to take a shot at that?

ADAM MEYERSON: It would be illegal for the Gates Foundation to conduct lobbying exercises in Congress related to the Microsoft Corporation, and if they did that, they would and should be prosecuted.

RICK COHEN: Well, can we separate the issues a little bit? Because there was a lot you had in your statement, and I wasn't quite sure how to untie some of it. When it comes to the question of what can be found as illegal that foundations might do, we're back to the issue of the fact that the tax-exempt unit of the Internal Revenue Service, which is supposed to be monitoring this, has a budget of bupkis. About a third of the attorneys general who are responsible for this are active, but their staffs are terribly underfunded as well.

I'm not bringing Gates into this, because I haven't seen any of it, but I've seen corporate foundations—and let's separate Microsoft Corporation from the Gates Foundation because they are distinct entities—used for purposes that are somewhat questionable. You can even use charitable contributions. The first contribution to Rick Santorum's Operation Good Neighbor Foundation was from the Microsoft Corporation. So that does happen. I think we need a better, smarter regulatory system that catches the misuses of philanthropy, because when somebody misuses philanthropy, it's not simply that institution that's harmed, it's everybody. We're all hurt by that.

This is where the lack of commitment to put the resources behind the government oversight and enforcement entities that are out there is hamstringing our—we face this kind of question and we don't have an adequate answer for it.

JAMES ALLEN SMITH: I will only add my endorsement to everything that Rick has said. We need more resources in state attorney general offices. We need more resources at the IRS. And I would add that the complicated accountability framework that we have—a self-regulatory system can only work if there's also a set of strong mechanisms for public accountability.

CARMEN DELGADO VOTAW, Alliance for Children and Families: Is there a role for Independent Sector to bring out some accountability for enterprises like this new merger, as Rick (Cohen) calls it, so that at each Independent Sector meeting, we would have some discussion on how it is fulfilling its public duties and how we are gauging the improvements they are making in our own society and societies abroad they seek to help?

JAMES ALLEN SMITH: I have one angle of an answer. Independent Sector did a remarkable job early on in supporting research on the sector in general. I think the research infrastructure that we have owes a great, great deal to the foresight of the people at Independent Sector. One of the roles that at least two institutions—maybe three or four—up at this table represent is serious research about the sector. I think we are all concerned, whether it's the Urban Institute, whether it's the Aspen program, whether it's the

National Committee for Responsive Philanthropy, whether it's the university research centers that have sprung up, that there is not enough independent research about the sector underway. And I would hope that there would be foundation leaders visionary enough to put resources into places that can, with the autonomy, with the strength of our academic researchers, continue to scrutinize the sector. Independent Sector did play a very important role for a long time in cultivating that community.

ELIZABETH BORIS: Just a footnote to that. Not only was research one of the pillars of Independent Sector's goals—

WILLIAM SCHAMBRA: Could you just say what Independent Sector is?

ELIZABETH BORIS: It's an umbrella association whose members are foundations and nonprofit organizations and it represents and speaks on the Hill for the nonprofit sector. When it was created by John Gardner and Brian O'Connell in the early 1980s, research was a very important issue. Even more than that, though, John Gardner believed in the necessity of research and was part of the leadership vision for how the sector could become stronger. And what I see is a lack of that kind of articulation of values about the undergirding of the nonprofit sector with factual information, with understanding and learning about it, and that has hindered us, I think, today.

RICK COHEN: I think the question ought to be addressed as broader than Independent Sector. Independent Sector is not the entirety of the nonprofit sector. It is not the entirety of the philanthropic sector. There is a much more diverse range of entities that are out there—

ELIZABETH BORIS: Absolutely.

RICK COHEN: - that have issues to raise and questions to explore. What I think is missing, and I agree again with Jim and Elizabeth, is the resource commitment that gives the sector, not just Independent Sector, but the *sector* and many other infrastructure organizations that are out there the ability to raise and research these questions with the independence that's needed.

If you look at the resources that are needed for government oversight and enforcement, you could also ask, how much of this is the role of philanthropy to fund, and how much of this could be funded, actually, by the private foundation excise tax? It would cover not only accountability issues, but also support the kind of research the government does on every other sector, but doesn't do very much on the philanthropic sector—because those monies (the excise tax) don't get used that way. So you have a \$500 million generation every year from the excise tax that is not being used the way it could be used, to address the question, Carmen, that I think you're raising in a broader context than just Independent Sector's work.

ELIZABETH BORIS: Another footnote: Philanthropic money through the National Center for Charitable Statistics (at the Urban Institute) is building the basic data on the nonprofit sector, which in every other sector the government does. And we're running out of philanthropic money to do that, and so once we run out of money, there is no longer money for Guidestar to digitize all the nonprofit Forms 990. We'll soon not know as much about the smaller nonprofits. And nobody seems to be really caring about it.

WILLIAM SCHAMBRA: Adam (Meyerson) mentioned one encouraging sign—and I hadn't thought about this, but it is actually quite interesting: Given the size and the unprecedented scale of this development, we may actually attract more press attention, more independent investigation than we had

before. I think we can all agree that press attention to nonprofits and foundations has been notoriously skimpy and ill-informed, other than Stacy Palmer's terrific *Chronicle of Philanthropy*. There's almost no serious attention to facts and figures and almost no serious cultivation of a variety of points of view, which does in fact happen at the *Chronicle*.

So maybe now that we have this scale, other parts of the press and other experts will become interested and we will, in fact, get this kind of healthy debate that we're all interested in encouraging.

TINA CLELAND, Hudson Institute: I wanted to ask the panel: Up to this time, the Gates Foundation has focused on global health education and micro-credit, among other areas. And as Elizabeth Boris pointed out, the findings of surveys at foundations indicated that one of the indicators of effectiveness is that they stay focused. So would we assume that, with the addition of the Buffett money, we would be doubling the efforts in those particular areas, or might there be an expansion into other fields of the interests of the Gates Foundation?

JAMES ALLEN SMITH: I think all of the interviews over the past week have suggested that they will focus in the areas where the Gates Foundation has focused over the last ten years—perhaps (with) a bit more of an understanding that health is one of those long levers for dealing with issues of poverty.

ELIZABETH BORIS: I think that's the key. I think that poverty is going to loom a little bit larger in what they're doing because it is so intricately intertwined with medical problems.

MICHAEL HOROWITZ: I'm untroubled—many of us are untroubled—by what happens with this foundation principally because Gates and Buffett are still alive and will have some clear control over what's going to be done with their money. My concern and my question to the panel is, what kind of protections need to be put in place for the days after they're gone, when we have a free-floating board that may ignore their intent and move on to wholly different areas or have wholly different points of view about what to do with the money. Isn't that the problem with the Ford Foundation, the MacArthur Foundation, and the Pew Charitable Trusts, where you have people totally detached from the intent of the founders who created these institutions, doing their own thing. Is that a problem in the foundation world, and how do we protect against that?

WILLIAM SCHAMBRA: Just to reinforce that question, Michael (Horowitz), the Rockefeller Foundation of course also, in its earliest phase, focused like a laser beam on international health issues as well. In fact, some of the same diseases they set out to conquer are still around and are now on the Gates agenda, like malaria. Hookworm, malaria, yellow fever—all of these were very important to the Rockefeller founders. By 1952, when Raymond Fosdick wrote his history of the Rockefeller Foundation, he said, well, you know, that focus on health and medicine is really short-sighted because it doesn't address the whole human being. What we need is investment in sociology and political science and the social sciences that help us tackle the *real* root causes of problems. These are not just physiological problems or medical problems or health problems; they're really *human* problems and we need to develop the sciences that will help shape a new human being.

So it is not unprecedented for foundations to begin with a focus on what we can all regard as solid, scientific and medical objectives, but pretty soon you discover, of course, that one of the problems with tackling medical and health problems is, people often don't behave the way you want them to. They don't quite react to the technology you're trying to import exactly the way you want them to. And they need to be persuaded to change.

And when you do in fact have now a foundation whose giving - \$3 billion—is as large as the GDP of forty countries around the world, the notion that we might drift into social engineering is a little frightening. I hope I didn't read too much into your question, Michael!

MICHAEL HOROWITZ: My point is, if Bill Gates wants social engineering with money he has honestly made, if that's the way he wants his money spent, I'm all for it, whether or not I agree or disagree with Bill Gates. What troubles me are independent staffs that have total control of that money, and it's subject to their policy discretion. How do we as a society seize control over those kinds of sums of money when it's totally detached from the purposes for which those moneys were given?

ELIZABETH BORIS: I think this is a basic philosophical argument that has been going on the field for a while. I think, taking your tack, that if a donor entrusts his or her money to a staff that he or she picked, and they're comfortable with leaving that money in perpetuity, within the framework that they set up, we should honor that. I don't think we have the grounds to say, that's no longer legitimate. Times change, institutions change, needs change, and if there is really one baseline strength that foundations have, it's that they should be able to change with those times and to deal with new issues that come up.

ADAM MEYERSON: Part of our mission at the Philanthropy Roundtable is to help donors achieve their philanthropic intent. And we think donors can do three things. First is to have a very clear mission. Second is to choose trustees who share their deepest values and principles and, if one sets up the foundation in perpetuity, to set up a succession process that helps to make sure that future trustees will share those values, and third, to seriously considering closing down the foundation—sunsetting the foundation—after perhaps a generation or two, because it is much easier to protect donor intent in a short time than in perpetuity.

It is interesting that Warren Buffett did not leave his foundation to his children. He made certain very generous grants to the foundation of his late wife and to his three children, each of whom will have his or her own foundation. From a donor intent perspective, this was quite interesting because in many cases—not all—it has been the relatives of the founding donors who have changed the initial purpose of the foundation. It becomes very hard for other trustees to argue with a child or grandchild about what dad and mom really wanted. And Warren Buffett had an interesting idea: Give 85 percent of the money to the Gates Foundation, and the rest of the money goes to other family members. It's easier, of course, to do that when you have \$37 billion. But the principle might still apply. And of course, in many cases it is the children and grandchildren who will be good stewards of the family money, but you just have to be sure that that is the case before agreeing to do that.

WILLIAM SCHAMBRA: I think we have time for one last question, and if we could, I believe we actually have a representative of the Gates Foundation in our audience, and it would be a great pleasure to hear a question from her.

TIRZAH ORR, Bill & Melinda Gates Foundation: I'm certainly happy to see all the people who are here and interested in the work we're doing and intend to do in the future. A lot of the questions you've brought up and a lot of the conversation from the panel are in line with the internal discussions we've been having about how we deal with such an amazing opportunity for the foundation. And I guess one of the biggest questions I have for the panel is: Do you see yourselves actually being a part of that discussion? Part of what Patty (Stonesifer) put out to all of you is that we wanted to hear your voices. So the question is, will you challenge us down the line.

JAMES ALLEN SMITH: I think all of us see that as our job.

ELIZABETH BORIS: The opportunities and how they're structured, I think, will probably dictate whether or not we can be effective in that role.

WILLIAM SCHAMBRA: That's a generous offer, I must say, and I think we have to wrap things up, but if today's panel is any indication, I don't sense a chilling effect on free speech with regard to the Gates Foundation so far.

Let me just say an ad for a Bradley Center project: For those of you who are interested in what we can learn from the past, when you have large foundations devoting huge amounts of money to projects over a long period of time, sometimes the results are not good. We asked Martin Morse Wooster, who is a writer and an historian in this area to prepare a monograph for us called *Great Philanthropic Mistakes*. You found a copy on your chair, and for our C-SPAN audience, anyone interested in the book, by all means go to the Hudson Institute web site, the Bradley Center sub-portion thereof, and you'll find a way of ordering this book.

Let's all thank our panel for a terrific conversation.

(Applause.)

(End)