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A giving recession?

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The downturn poses new challenges for philanthropy

AMONG the more difficult things to forecast for 2009 is what will happen to giving. On the one hand, the turmoil in financial markets has reduced the assets of many prominent givers, both foundations and individuals. Warren Buffett's company, Berkshire Hathaway, has lost around one-third of its value in the past year. Sir Tom Hunter, a Scottish entrepreneur who had become one of the leaders in a resurgence of British philanthropy by pledging to give away a billion pounds over his lifetime, has lost a lot of money, and says his foundation will be "scaling back what we are doing this year". The collapse of Bernie Madoff's Ponzi scheme has dealt a devastating blow to Jewish philanthropy in particular, as so many wealthy Jews invested their money with him, hitting several charities very hard, including prominent non-profits such as Human Rights Watch.

On the other hand, giving has proven remarkably recession proof, at least in America. During the Great Depression, giving rose. Over the past 40 years there have been several recessions, but just one year in which total giving has fallen in America: 1987, the year of the "Black Monday" stockmarket crash.

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Carnegie in the forefront

So it was with great interest that your columnist listened to the views of two of the heads of America's biggest foundations, who spoke at New York's 92nd Street Y on January 4th. Both Vartan

Gregorian, president of the Carnegie Corporation of New York (established by Andrew Carnegie, a steel tycoon, in 1911), and Paul Brest, president of the William and Flora Hewlett Foundation (created by one of the co-founders of Hewlett-Packard in 1967), admitted that their assets had fallen sharply over the past year. This was despite both foundations pursuing the "Yale model" of investing pioneered by David Swensen, who manages the Yale University endowment. As *The Economist* reported before Christmas, the poor performance of foundations and university endowments has led to some criticism of the Yale model.

Both Messrs Brest and Gregorian said they continued to believe in the model, which is based on taking a very long-term view of financial returns. It kept their losses less than the market average. But Mr Gregorian noted that the Yale model's heavy reliance on private equity and other alternative investments has caused Carnegie a liquidity problem, because private-equity managers have asked the foundation for money it had previously promised but presumably had hoped not to pay at this particularly tricky time.

Still, while Carnegie's assets are smaller than they were last year, they remain much bigger than they were just a few years ago. When Mr Gregorian took charge in 1997, its assets were about $1.2 billion. By last year, they were $3.1 billion (despite having given away over $1 billion in the meantime). Now, though he says he is not sure of the exact number, he reckons the endowment has at least $2.2 billion. As for Mr Brest, he says that the recent market plunge has merely reduced the Hewlett foundation's assets to what they were four or five years ago, "and we thought of ourselves as big then".

Moreover, both foundations expect to stick to their giving plans in 2009—but unless asset prices recover soon, there will be cuts in 2010. As is typical for foundations, each year they give away around 5% of the average value of their assets over the preceding three years, a formula designed to limit their exposure to bubbles and crashes. They have started to cut expenses, however. At Carnegie, Mr Gregorian and other top executives have taken a pay freeze, construction plans have been delayed and staff fly economy class, even on 18-hour flights to Africa.

Neither foundation intends to shift the focus of its giving because of the crisis. A recent meeting of foundation chiefs hosted by the Ford Foundation apparently addressed the issue of whether foundations should now do more "charity"—ie providing relief for symptoms of the downturn (set up soup kitchens, etc)—and less "philanthropy": ie long-term investing toward solving larger problems.

Mr Brest (whose new book, "Money Well Spent: A Strategic Guide to Smart Philanthropy", was recently reviewed by *The Economist*) said that would be a mistake. Foundations can pursue risky long-term structural solutions; allowing their attention to be diverted by short-term needs would waste that potential. Thus Hewlett will keep funding efforts to fight climate change, which Mr Brest says has a high risk of failure but a huge upside if it succeeds.

Similarly, Mr Gregorian said that Carnegie will continue supporting causes such as the non-proliferation of nuclear weapons and reforming America's school system. The latter process has seen a lot of money given away by many foundations, including the mighty Bill & Melinda Gates Foundation, and much experimentation, but disappointingly little success.

Mr Brest suggested that the downturn might provide an opportunity to rationalise the non-profit sector. There are now around 1.6m non-profits in America, employing one in every 11 workers, which he deemed excessive. Many of these non-profits duplicate each other, under-perform and miss out on economies of scale because they are too small. Tough times could encourage them to collaborate more, sharing back-office functions and maybe even merge. Yet, when pushed, neither foundation boss seemed confident that this outbreak of efficiency would happen, and especially not through mergers. The inertia in the non-profit sector is too strong, they suggested—though surely the large amount of money they give away makes them well-placed to put pressure on the non-profits they fund to collaborate or merge.

Mr Gregorian concluded by reminding the audience that Andrew Carnegie was extremely controversial when he began his philanthropy, and was even accused of being an anti-capitalist. That was not least because he argued in his book, "The Gospel of Wealth", that rich people held their wealth in trust for society and that they had a responsibility to give most of it back. What better message could there be for today's wealthy in these difficult economic times?