Historically, foundations are among the oldest existing social institutions, dating back thousands of years. Equally impressive as their longevity as an organizational form is, however, the significant expansion the field of foundations experienced in recent decades when institutional philanthropy thrived both nationally and internationally (Johnson 2010). By the turn of the century there were more foundations holding more assets in more countries than ever before. The over 75,500 US foundations had assets of $565 billion (Foundation Center 2010), and the 9,987 foundations in Canada, $36.2 billion Canadian dollars (Canadian Foundations Facts 2010). Europe experienced a veritable foundation boom, with the majority of its estimated 110,000 foundations having been created in the last two decades of the twentieth century (Hopt et al. 2009). The 10 largest of Germany's 18,000 foundations have assets of about D23 billion alone (Bundesverband deutscher Stiftungen, 2012), and the estimated 8,000 British foundations had assets of £33 billion (www.acf.org.uk). Although endowment values dropped in 2001 and 2008, they remain at historically high levels in most developed market economies.

While the growth in numbers has been widely noted, there has been less public and political discussion of what this trend means in terms of the roles, and more important, the rationales of private foundations and the implications for their host societies. This question is important for several reasons: first, the expansion of philanthropy
occurs in the context of state shrinking (that is, a reduced capacity of
government in most advanced market economies); second, change in
the democratic fabric of most developed market economies, with lower
participation in party politics and a rise in unconventional forms of
activism (that is, Internet-based advocacy) and movements like the Tea
Party in the United States; and third, it also takes place during a time of
change in how foundations perceive and position themselves.

Several volumes have appeared in recent years examining the
growth and roles of philanthropic foundations (see, for example, Anheier
and Leat 2006; Prewitt et al., 2006; Anheier and Daly 2007; Fleishman
2007; Hammack and Heydemann 2009; Zunz, 2011; Hammack and
Anheier 2013). If these volumes have any common message, it is that
foundations play important, if limited, roles in society, often comple-
mentary to government; that they are somewhat peculiar institutions
in democratic societies; that they are not widely understood and rarely
publicly debated; and that their full potential remains unmet.

Another common message flows from the latter, and states
that foundations need to work on a more robust statement of their
rationales in modern societies. More recently, Reich (2013) has asked
“What are foundations for?” in a modern democracy and has justi-
fied their existence in terms of their innovative capacity and ability to
take a long view. In this approach Reich follows the general consensus
in the literature. The problem with this approach, however, is that
it is difficult either to support or refute such justification, since any
criteria and evidence may well reflect the perspective of particular
stakeholders, and more generally, their proponents and opponents.
What is more, given the largely untestable nature of many proposi-
tions made about foundations, there is the possibility that the same
results could be achieved at the same or lower cost by some other type
of institution.

Using the format of thesis and counterthesis, this essay seeks to
unravel some of the threads in the “What are foundations for?” debate,
and to consider basic rationales for and against the continued existence
of foundations in modern democracies.
UNRAVELING THE THREADS

The origins of foundations are disputed and the answers, ranging from antiquity to the nineteenth century, depend partly on the definition and geographical focus employed. Smith and Borgman (2001) identify two prominent roots in the development of foundations in Europe: religion, in particular the Roman Catholic and the Protestant churches, and the “bourgeois” revolution of the nineteenth century, when the emerging urban middle class and industrial elite made frequent use of the foundation form. In Britain, the Victorian era saw the first modern “foundation boom” and a prominent social and political role for organized philanthropy (Prochaska 1990).

The true locus of much modern foundation development has been the United States (see Hammack and Anheier, 2013), despite the creation of trusts like the Nuffield and Rowntree Foundations in Britain or the Robert Bosch Foundation in Germany. The initial growth period of the general-purpose foundation in the United States reflected the perceived social responsibilities and moral obligations of the entrepreneurs during the postbellum reconstruction period and the rapid industrialization that followed. Importantly, in the United States foundations represented an innovation that implied a fundamental shift in their raison d’être: foundations become problem-solving institutions (see Karl and Katz 1981; Prewitt et al. 2006; Hammack and Anheier, 2013): some scholars such as Bulmer (1999) see the modern foundation as a prime tool and exemplar of “knowledge-based social engineering” in modern society. By contrast, in Britain philanthropic institutions largely remained expressions of charity and special interests, closely tied to the industrial class system, with the German case somewhere in between, but characterized by the prominence of corporate and operating foundations.

The remarkable achievement of twentieth-century US philanthropy was to modernize a basically European institution that had been discredited twice, the first time in the aftermath of the French Revolution, when foundations were seen as an expression of the ancien régime. Fears of the main morte dictating the future, and the identifi-
cation of foundations as bastions of the Church and the aristocracy, paved the way for restrictive laws on foundations in many countries. Foundations survived, of course, and were to be reborn as charitable institutions, reaching new prominence in the late nineteenth century. Foundations became the charitable arm of the new industrial elite and were fully part of the Victorian model of a self-organizing society (see Lewis 1999) with limited state involvement. The workers' movement and the socialist party challenged this model politically, in turn.

In what follows we look at the United States, in addition to Britain and Germany: the United States because it has by far the world's largest foundation sector and offers something close to a gold standard to other countries; the United Kingdom because in terms of foundation formation and legitimacy it occupies a midpoint between the United States and mainland Europe, exemplified here by Germany. In the United States, foundations have to be understood in the context of fear of "big government," just as in wider Europe foundations need to be understood in the context of attitudes toward the importance of the role of the state. Put crudely, in the United States foundations are generally considered "a good thing"; in large parts of mainland Europe they are viewed with caution; and in the UK they are neither overly admired nor overly feared (see Hammack and Anheier 2013 on the United States; Leat 2007 on Britain; and Anheier and Daly 2007 on various European countries, including Germany).

WHY FOUNDATIONS?
Irrespective of their historical development as charitable institutions, we have to ask the fundamental question of why foundations exist in the first place. What theoretical and empirical arguments can be made for and against their existence in the twenty-first century? We explore these questions by offering two opposing answers, first generally and then from the perspectives of founders, government, and civil society at large.

Claim: Foundations exist because they leverage private money for public benefits and thereby provide additional options to state/market provisions. Specifically:
For founders: As a form, foundations respond to existing demand and provide (actual and potential) philanthropists with a legal instrument for expressing and pursuing their philanthropic interests.

For government: Foundations provide additional resources (funds, expertise, direct services, and so on) that supplement government action, thereby achieving a more optimal use of both public and private funds.

For civil society: Foundations are an independent source of funding that helps civil society counterbalance the forces of markets and state, preventing both from dominating and atomizing the rest of society.

Counterclaim: Foundations may have some useful features, but they are ultimately elitist, undemocratic, and basically irrelevant to modern society. The privileges they receive and reinforce may well surpass the wider benefits they create.

For founders: Foundations exist to provide a solution to the problems of the rich rather than the poor.

For government: Foundations interfere with democratic processes and suck wealth out of the nation’s tax base; they represent a misallocation of public funds.

For civil society: Foundations continue to exist not because there is evidence that they do anything valuable or that they command widespread support, but because of ignorance, lack of political will and interest, and belief in foundations’ myths about themselves.

To put claim and counterclaim into perspective, it is useful to take a closer look at some of the theoretical thinking about foundations.

EXPLAINING FOUNDATIONS
Unfortunately, with only a few notable exceptions (for example, Porter and Kramer 1999), economists have traditionally taken little interest in foundations. Sociologists, political scientists, and historians have had more but not that much to say about the existence of foundations. One very general theory of the existence of foundations is that they provide
vehicles for the expression of individual altruism and the means of leveraging private money for public purposes (see Prewitt et al. 2006; Hammack and Anheier 2013). On the assumptions of varying levels of philanthropic values and of an unequal distribution of assets in a population, some people will have both considerable assets and high philanthropic values. For a minority of them, in particular for those with larger fortunes, setting up a foundation for the distribution of grants (or for providing a service) will be economically efficient. In other words, it may be cheaper and less demanding to disburse money for a dedicated purpose with the help of a dedicated organization, that is, a foundation, than through the agency of the individual founder alone.

Many of the explanations of foundations' existence at the broader societal or cultural level are derived from the United States and, given the very different attitudes to the proper role of the state, are of questionable relevance to much of mainland Europe and in particular for post-1945 Britain, after the emergence of the welfare state model. But at the same time, the explanations derived against a US background may have been more applicable to pre-1930s Britain and Europe, and they may well be relevant again at the beginning of the twenty-first century in the aftermath of neoliberal policies in the 1990–2008 period, and the growing austerity since.

Under the policy of neoliberalism it is argued that foundations exist to provide an alternative to some kinds of state responsibilities. The reasoning is clear: provision of the wide range of welfare, educational, and cultural services exclusively by the state would violate the neoliberal ideological precept of limited government (Prewitt 1999, 2). In the same vein, but somewhat differently, “For the state, foundations tend to be vehicles for semi-privatizing certain tasks that are not as easily or as efficiently accomplished within the bounds of state administration” (Strachwitz on the German case quoted in Anheier and Toepler 1999:4).

Along similar lines, it has been suggested that foundations “reclaim societal space for a functioning civil society from what conservative observers such as Olasky (1992) regard as an overextended welfare state” (Anheier and Toepler 1999, 5). Within a civil society context, to
paraphrase Gellner (1994, 5), foundations rank among voluntary organizations and similar institutions, which, taken together, are strong enough to counterbalance the forces of the state and the market, thereby preventing the state from dominating and the market from atomizing the rest of society.

The most common explanations of foundation existence and formation focus on the alleged virtues of foundations in providing sources of innovation, redistribution, policy change, and challenge, an alternative to the state, providing for those “beyond” market and state, and adopting a longer-term perspective than is possible for governments driven by electoral timetables and political expediency (see Prewitt et al. 2006; Hammack and Anheier 2013).

Different types of foundations may exist as solutions to somewhat different problems. For example, corporate foundations may be seen as a way of defusing criticism of “tainted money” by managing corporate donations more openly and systematically (see Burlingame 2001). Community foundations present themselves as local devices for avoiding big government, reducing the tax burden, humanizing global capitalism, and crucially, maintaining or even strengthening local control (Walkenhorst 2010).

Two important points are worth highlighting here. First, explanations of the existence of foundations are intimately intertwined with assumptions about and attitudes to the role of the state. Second, none of the explanations address the question of why foundations exist as distinct from nonprofit organizations in general: why do foundation creators not simply give their money to one or more existing charities, or indeed to public bodies? The answer may well lie less in the economics of fund distribution (see above) than in the realm of power and control over the use of assets. This is, in the first instance, achieved through the instrument of the deed, which binds assets to specified purposes and instructs trustees to act accordingly, and thereafter through trusteeship and self-perpetuating boards.

Another way of approaching the question of why foundations exist is to consider who creates them and why. In the United States the
available data suggest that those with varying amounts of wealth create foundations for four main sets of reasons (Ylvisaker 1987; Ostrower 1995; Hammack and Anheier 2013).

Value-based motivations
- Concern for the welfare of others, social responsibility
- Religious heritage
- Desire to repay society
- Political beliefs
- Concern with particular activities or issues
- Commitment to a specific geographical community

Instrumental motivations
- Flexibility of foundation as compared with other charitable options
- Tax incentives
- Establishing a vehicle for the systematic conduct of philanthropic giving
- Memorial/dynastic motives
- Family tradition of charitable activities
- Desire to create a memorial to self
- Desire to create a family institution
- Lack of heirs

Peer pressure
- Social pressures from peers
- Fashion

Selfish motives
- Maintaining some form of control over assets
- Personal satisfaction of creating a foundation

US studies also highlight the role of particular professions such as solicitors, accountants, and financial advisers in encouraging foundation formation (Odendahl 1987; 1990). In the United States a small
number law firms are concerned with a remarkably high proportion of all foundation wealth (Fitzherbert and Richards 2001, 325). Patterns in Germany are similar; although there are no systematic data for Britain and other European countries on the role of lawyers and financial advisers in foundation creation despite the fact that several law firms in London or Frankfurt, for example, specialize in philanthropic services.

In view of the above list of motivations, it is not wholly implausible to suggest that foundations may exist as a solution to the problems of the rich rather than the poor. Foundation creators may see foundations not merely (or even primarily) as socially legitimate tax shelters but rather as a means of averting criticism and resentment of their wealth in a democratic society; salving their consciences (about being overly rich and about how their wealth was made or acquired) and “paying back/making reparation”; achieving personal goals and interests; avoiding state intervention in problems in which the donor has an interest; and, crucially, doing all of this with control. Arguably, what differentiates foundation formation from other charitable giving is that in practice (though not necessarily in law) the donor and his or her family and chosen associates retain control over what is done with the gift. Similar points might be made about some corporate foundations.

Some foundations have been created as a "solution" to the political and practical problems arising from the privatization of publicly or mutually owned companies. For example, the Volkswagen Foundation was created from the sale of the Volkswagen Corporation when the company, quasi-ownerless after World War II, issued shares in the 1950s and 1960s. The Northern Rock Foundation originally derived its income from a covenant Northern Rock PLC put in place when the company moved from being mutually owned to a limited company, and without which the privatization was unlikely to have gone ahead. Although the company was created by generations of mutual owners, the (new) company now refers to its “massive generosity” as the “benefactor” of the foundation. In addition, a budget was set aside from the foundation's income to be disbursed to charitable causes chosen by the chief
executive of the company; the foundation's funds were also used to match the charitable giving of company staff.

**A WORLD WITHOUT FOUNDATIONS?**
What would we lose if foundations were abolished? Would we reinvent them? As before, we posit claim and counterclaim.

Claim: Foundations provide social benefits that outweigh their costs, and this value added would be lost if foundations were abolished or not encouraged through tax legislation.

- **For founders:** Among the forms of philanthropic activity, the foundation has proved more beneficial and reliable for donors, trustees, and beneficiaries than alternative forms, in particular "unorganized" individual philanthropy.
- **For government:** Foundations are doubly useful: they add to government activities where needed and politically expedient, and they can be used as tools of government policy.
- **For civil society:** Foundations are the banks of civil society; they help fund innovative, risky projects that neither market nor state would support. A functioning civil society needs independent financial institutions.

Counterclaim: Foundations are an expensive way to allocate private funds for public benefit; rather than generating added value they are a net cost to the taxpayer. Public policy should not encourage the creation of foundations and existing foundations should be phased out.

- **For founders:** While foundations may have been useful instruments in the past, there are now more efficient and flexible options available for philanthropic activities.
- **For government:** Foundations fall into the class of tax-inefficient means of achieving public benefits; their tax-exempt status seems difficult to justify unless they meet clearly specified public needs and conform to government programmes.
- **For civil society:** Foundations are cultural leftovers of the Victorian
era, are continued expressions of the old class system, and are yet to become part of modern societies that are more mobile, open, and diverse. Unless foundations modernize, they are best left where they are, namely, at the margins of modern society.

Why do foundations continue to exist? The simplest answer is: they exist because they are valued by society. They offer something that society would otherwise lose. Prewitt (1999) as well as Prewitt et al. (2006) suggests that the added value of foundations could take the form of voluntary redistribution of wealth, innovation, fostering change and safeguarding tradition and heritage, catering to minority demands, and advocating pluralism. Of course, empirical evidence in the United States (Hammack and Anheier 2013) and Europe (Anheier and Daly 2007) lends partial and qualified support to these claims.

One reason for this may be the institutional inertia created through the very permanence of foundations in legal terms and the social and political protection they receive through trusteeship systems that recruit from social and professional elites. Indeed, in the case of Britain but also for the United States and much of mainland Europe, one could say, with only some overstatement, that foundations are created and governed by a country's elites. They are deeply ingrained in a country's class structure and deeply embedded in its political systems. As a result, it may in fact be more costly politically as well as economically to abolish a foundation than to allow it to continue to exist, however ineffectively or obscurely.

Why we continue to allow the survival, and even encourage the further creation, of foundations in democratic societies is by no means self-evident. Despite widespread acceptance, even admiration, especially in the United States, foundations, from their inception, have been objects of periodic suspicion and criticism (see Karl and Katz 1981; Nielsen 1996; Hammack and Anheier, 2013). Some key themes emerge in the criticisms of foundations, including that foundations are an inappropriate use of private funds to influence public policy, that they interfere with the democratic process, and that they are founded on "dirty
money," attempting to curry public favor and rehabilitate robber-baron images, which would have been better spent on improving working conditions for their founders' employees.

In the past, the Carnegie United Kingdom Trust might have been subject to this sort of criticism. Today, those foundations established after the privatization of mutually owned companies, which then present themselves as great benefactors, might be similarly criticized (see the case of Northern Rock above). Somewhat differently, foundations formed from the proceeds of businesses built on arms, alcohol, tobacco, and gambling may be seen as "tainted" but critics of such foundations sometimes fail to realize that foundations formed without such monies then go on to derive their investment income from companies with less than "pure" records (for example, some oil or drug companies, or companies with very poor industrial relations or environmental practices, especially in the Third World).

Interestingly, foundations in the UK or Germany have never experienced the sort of investigation and criticism generated by US congressional inquiries in the 1960s into self-dealing, low payout rates, undue secrecy, and so on, which led to the 1969 Tax Reform Act. Given the traditional secrecy of UK foundations and the patchy evidence on the proportion of income paid out in grants, the absence of a systematic governmental inquiry into the practice and capacity of foundations is indeed surprising, in particular when we recall that some of the Labor governments of the 1960s and 1970s were certainly not "foundation friendly" and that the Conservative Thatcher-Major governments, preoccupied with efficient use of tax revenue, were in search of alternatives to public service provision. Were foundations perhaps too marginal, factually or ideologically, to warrant a closer look at their foundations by either political party?

More recently, there has been some criticism of UK foundations for apparently "sitting on" money rather than spending it (see, for example, Bishop and Green 2008). Unlike in the United States, there is no fixed mandatory payout rate for foundations in the UK (nor in Germany). Foundations are nevertheless required to apply their money
for charitable purposes and are answerable to the Charity Commission if they fail to do so. The problem in assessing the extent to which foundations spend at, for example, the 5 percent payout rate required in the United States is that many foundations operate on a “total return approach” in which the highs and lows of the stock market are evened out over a long period. This is one reason why a focus on any one year’s spending is misleading; another equally important reason is that much foundation spending tends to be cyclical—spending may be low when a new program area is being explored, very high when a program is being launched, and lower again as the program ends and new areas are being explored.

There is a further issue to do with the fact that many foundations are, or see themselves as being, established in perpetuity. This means that they can only spend at a rate that will preserve the long-term value of the endowment. Recent analysis by Jenkins and Rogers (2013) suggests that over the last 112 years in the UK this would have required a spending rate of around 4.2 percent per annum. In Germany, foundations are legally required to preserve the value of the endowment over time, which leads to rather conservative approaches in terms of asset management.

The real answer to the question “Why foundations continue to exist” may lie in a mix of lack of political will to push alternatives and apathy generated in part by “foundation innocuousness,” in part by their elite networks, and fueled by foundation representatives’ acceptance of their own myths. The same might also be true in large parts of Europe, including Britain. In other words, the tendency to assume that foundations continue to exist because they have positive legitimacy, based on systematic evidence of their positive contributions to society, may be unfounded. Foundations may continue to exist simply because institutional inertia; very few people are aware of them or of the privileges they enjoy; they are of no real concern to politicians, are believed to do at least no more harm than good, or are otherwise seen as largely irrelevant. Getting rid of foundations would require addressing the larger and politically much more difficult problem of the definition of
“charity” and public benefit. Apathy and lack of political and public interest and will may the most important factors in the continued existence of foundations.

A related explanation might be that people believe foundations' own accounts of themselves as innovators and guardians of the public good, despite the only partial and qualified evidence to support those claims. Dobkin-Hall's (1996) call for US foundations to fund more dispassionate and less self-congratulatory research about the nonprofit sector is equally relevant in Britain and Germany: "Through the 1980s and mid-90s, philanthropy advocates did their best to muzzle critical research by steering money to academic centers willing to mix research and advocacy, by lavishing attention on 'friendly' scholars, and by attacking independent researchers and charging that their work could lead to calls for greater government regulation" (Dobkin-Hall 1996). What foundation in the United States and Europe, we ask following Hall, would be willing to fund critical research on philanthropy and publicly stand by its decision to do so once the results are in and about to be published?

What would we lose if foundations were abolished? This is more than a rhetorical question. Indeed, foundations hardly exist in some countries, with France, Austria, Finland, Denmark, and Japan as prominent examples. All five countries have higher per capita incomes than Britain, rank higher on the Human Development Index scale, and have significantly less poverty and a more equal income distribution throughout. Foundations were abolished in France following the revolution of 1789, and have been "reinvented" only under the somewhat restrictive umbrella of the Fondation de France. Nearly all Austria's foundations disappeared during the two world wars and little attempt has been made to revive them. The Japanese government kept a close eye on foundations until the late 1990s, and foundations in Scandinavian countries are viewed with considerable suspicion (see Anheier and Day 2007).

The standard argument that foundations leverage private funds for public purposes comes in two versions. One is that foundation money would otherwise be spent or passed on to often already advan-
taged heirs. The other is that foundations give grants that encourage others to give additional sums. These leverage arguments remain weak, however, unless two critical outcomes can be demonstrated empirically:

› that the public benefits generated by foundation activities outweigh the opportunity costs of loss of tax income; that is, that potential founders would not give directly to charity assets otherwise endowed to the foundation; and
› additional monies leveraged by foundation grants actually come from private sources, including existing foundations, and not from tax revenue via public bodies.

Thus, in general and simple terms, arguments for foundations require proof that the benefits outweigh the costs. In this context, it is worth outlining the broad criticism of foundations presented by Porter and Kramer (1999, 121–30), who suggest that foundations have a responsibility to achieve a social impact disproportionate to their spending, not least because some of the money they give away belongs to the taxpayer. They reach two conclusions: too few foundations work strategically "to do better" to achieve this disproportionate impact; and foundations are a costly way of creating social benefit.

The following example might illustrate the last point. When individuals (as opposed to foundations), contribute $100 to not-for-profit organizations, the government loses $40 in forgone tax revenue, but the recipient charity has $100 to devote to some specified public benefit. Thus, the benefit is 250 percent of the lost tax revenue. By contrast, the case for foundations is different: on average, US foundations donate 5.5 percent of their current asset value each a year, slightly above the prescribed payout rate of 5 percent (see above). When $100 is contributed to a foundation, the government loses the same $40 but the immediate social benefit is only $5.50—that is, less than 14 percent of the forgone tax revenue. At a 10 percent discount rate the present value of the foundation's cumulative contribution after five years would be only
$21, or just over 50 percent of the lost tax revenue, and after 100 years it would be $55, or some 133 percent of the tax lost a century earlier.

These figures demonstrate dramatically the empirical case that could be made against foundations. The example above means that taxpayers contribute up front for much of the expected social benefit that could be attributed to foundations over time. Furthermore, the delayed social benefit has to be put in the context of two additional sets of costs: administrative costs on behalf of the foundations and costs to grantees in complying with application and reporting processes. Taking all these factors into account, Porter and Kramer (1999) conclude that foundations are a socially expensive and hence inequitable way of allocating private funds to public purposes.

FOUNDATIONS AND DEMOCRACY
What is the relationship between foundations, democracy, and civil society? Are foundations necessary for modern democratic societies to function?

Claim: Whatever the drawbacks of foundations, the roles they play provide benefits for society that outweigh the disadvantages associated with them.

- **For founders:** Foundations offer a way for philanthropists to provide “voice” and political space for those who would otherwise be excluded and less heard in the political process.
- **For government:** Foundations open up new political options and can search for answers and approaches outside the limits of party politics; they add independent voices to the policy process.
- **For civil society:** Foundations are independent bastions against the hegemony and controlling attitudes of government and big business; they provide the pluralism needed and support the dynamic political forces of today: think tanks and NGOs.

Counterclaim: There is no systematic evidence that foundations fulfill the roles claimed. Furthermore, it is doubtful whether foundations have the financial and organizational capacities to perform those roles.
For founders: Foundations are the province of self-righteous, self-appointed groups of do-gooders, and ultimately represent the voice of the elite and upper-middle class.

For government: Foundations interfere with the democratic process; they represent special interests, and rarely the public good, and should be treated as such. Foundations have no political legitimacy, nor are they democratically controlled.

For civil society: Foundations are undemocratic, quasi-aristocratic bastions in a modern, formally egalitarian society. For a dynamic, inclusive civil society, their elitist, fossilizing, and bureaucratic characteristics make foundations more part of the problem than the solution.

The very fact that foundations can operate outside the political system of parties, government, and public administration creates opportunities for support of causes that are either bypassed or unwelcome to mainstream politics. This would include ethnic, religious, or cultural minorities, the socially excluded, or any other disadvantaged group that finds it hard to be heard by, and to get access to, political institutions. In such cases, foundations can provide support and compensate for democratic deficiencies.

The most spectacular examples are the support of the civil rights movement in the United States by Ford and other foundations, and the support of the anti-apartheid movement in South Africa by US, Dutch, and Scandinavian foundations, as well as a tiny number of UK foundations. In the UK, only 3 percent of overall grants go specifically to ethnic minorities, but there are exceptions. Prominent examples of foundation support for minorities include the Hilden Charitable Fund, spending 33 percent of its grant-making income on support for minorities; the Barrow Cadbury Trust and the Barrow Cadbury Fund, spending significant sums on asylum, immigration and resettlement, racial justice, disability, and gender programs.

On the other side of the political spectrum, one could mention the role of conservative US foundations in sponsoring “traditional
family policies" in Congress, in promoting religious education and prayer at state schools, or in paving the way for Ronald Reagan's neoliberal agenda in the 1980s or the Tea Party movement in the 2000s and 2010s. In the UK some foundations arguably played a similar role in supporting Thatcher's market agenda and in maintaining and increasing the dominance of London-based elite arts institutions.

Support for "unpopular causes" on both sides of the political spectrum has not gone without criticism. As noted above, one major criticism of foundations is that they are perhaps the most unaccountable organizations in democratic societies. Foundations are organizations without shareholders, voters, or customers—and their "clients" are highly unlikely to criticise them.

In the UK, although every charity is required by law to supply a copy of its most recent annual report and accounts, 15 percent of foundations failed to do so, according to a recent survey (FitzHerbert and Richards 2001, x). Few foundations go further than the provision of what is legally required in terms of annual reports and accounts. One notable exception is the City Bridge Trust, which holds its grants committee meetings in public, not least because its trustee is required to do so under local government openness rules. (There is, of course, an argument that public meetings would merely push the real decisions behind closed doors. But that is another debate.) In Germany foundations have no such requirements at all, and very few foundations publish annual reports or make financial information available to the public.

There has long been debate as to whether foundations are public or private bodies (for a summary, see McIlnay 1998). One strong argument for viewing foundations as public rather than private bodies is that public accountability is built into the concept of charity via the notion of public benefit that is central to its legal definition. The tax relief and other legal privileges enjoyed by foundations are another powerful argument for viewing foundations as having a duty of public accountability. "The privacy of foundations is a privilege awarded to them because of their contributions to society, not an excuse to ignore the responsibilities of citizenship in a democracy" (McIlnay 1998, 101).
Additional arguments for accountability arise for foundations that are not fully endowed but rely on fund solicitation for some of their revenue, as is the case with community foundations. As for other fundraising nonprofit organizations, donors need to be assured that the ways in which such foundation are run and donations are spent, are open to public scrutiny, with easily accessible information.

A crucial argument for the accountability of foundations has to do with their roles in “determining” public priorities in a modern democracy. The critical charge that foundations interfere with the democratic process contains three elements. First, foundations attempt directly to influence public policy (for example, by lobbying and network influence); second, foundations determine and pursue their own priorities with a mix of private and public funds (forgone tax) over which government has no control; and third, foundations fund causes and organizations that may rely on state funding in the medium to long run. The latter point is expressed in the claim that foundations are "bribing state agencies to adopt their agendas . . . [,which] sounds innocent, but no one is fooled. The whole purpose is to lure states into expanding their bureaucracies and increasing spending, all in the name of improving public health" (McMenamin 1997).

There is little systematic data in the UK or wider Europe on the basis of which to assess the extent to which foundation grant-making adds to the public expenditure once foundation “seed money” or short-term support has dried up. Several examples give the general impression that foundation funding might indeed create problems for statutory bodies left to pick up the bill for longer-term funding. One high-profile example was the funding of an HIV/AIDS ward at a leading London hospital that the hospital could not afford to staff and run. Another example is time-limited, endowed chairs at German public universities that come with the condition that the state assumes funding in the long term.

With some notable exceptions, the charge that foundations attempt directly to influence public policy has little force in much of Europe. The vast majority of foundations operate on a charitable stick-
ing-plaster model and have remarkably little interest in policy matters. One explanation for this lack of interest may be that foundations are wary of being perceived as “political”; another may be that they simply do not have anything to contribute beyond statements of the importance of their own existence and independence and vague platitudes about “civil society” and the nonprofit sector in general. Yet more generally, the criticism that foundations interfere with democratic processes assumes that foundations are actually effective in doing so.

FOUNDATIONS AS IDEAL VERSUS REALITY

Of course, many of the theses and countertheses, claims and counterclaims posited in this essay served as mooring for an empirically grounded debate that remains incomplete unless better and more comprehensive data become available. Yet we can reach three tentative conclusions that center on the divergence between foundations as ideal and as reality.

Clearly, foundations invite very different assessments: Olasky (1992), in examining what foundations actually do against what they say they intend to do, reaches a somber conclusion in a book aptly entitled The Tragedy of American Compassion. Odendahl (1990, 27) does as well when she charges that “the rich do not give to the poor but to institutions they use and cherish—the charity of the wealthy doesn’t just begin at home, it stays there.” By contrast, Feishman (2007) advances the notion that foundations as “a great American secret,” and Zunz (2011) views foundations as the integral and successful part of the nation’s civic, democratic fabric—and ready for export.

It seems that, for some, foundations build cuckoo clocks and pass them off as cathedrals; for others they lay the very foundations for great works for others to complete and enjoy. For some they question and probe the system; for others they are the system.

Yet why does an institution that, at least on face value, appears inherently good and beneficial, fall short of its intentions in the eyes of critics? One major reason may be the way in which foundations typically operate, in particular their grant-making principles, selec-
tion processes, organizational cultures, staffing, and trustee system. Of course, foundations can tout their relevance and, like most organizations, generally pursue the path of least resistance in terms of accountability and performance assessment. But unlike other institutions, they have neither correcting audiences nor controlling stakeholders. As a result, foundations are shielded from truer and clearer signals about their need, performance, and achievements. Low levels of accountability and the typical absence of stakeholders strong enough to block or force decisions suggest a tendency toward complacency rather than the agility and versatility assumed and required.

Finally, the discrepancy between ideal and reality may well be a function of the isolated view some foundation analysts assume when assessing foundation performance and impact. Hammack and Anheier (2013) have shown that American foundations were able to adjust to changing circumstances quite well, but that expectations and perceptions of many foundation representatives, politicians, and the general public seemed to lag behind. Could it be that the discrepancy between the ideal and the reality of foundations is the outcome of expectations stemming from the past (that is, the golden age of the large foundations like Rockefeller and Ford) meeting the realities of the present? If that is so, then modesty in goals and result orientation in activities may well be the way forward for foundations in the United States, Britain and Germany alike.

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