The Foundation and the Liberal Society

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I. The Question Posed

This essay asks whether nations that do not have a modern philanthropic foundation sector should bother to establish one. What is the rationale for the private foundation – what does it offer that cannot be provided by the state, the market or by any number of nonprofit institutions already active in society?

The United States offers the clearest example of what is intended by the phrase: “modern philanthropic foundation sector.” Initiated in the early decades of the 20th century, American foundations have since experienced phenomenal growth – as indicated by their numbers, asset base, professional staff, and scope and reach of grant-making. The sector is strengthened by its internal differentiation – community foundations, operating foundations, family foundations, corporate foundations, and, in greatest number, independent multiple-purpose grant-making foundation. Some foundations primarily work locally, while others have offices around the world; some offer core support grants, while others focus on projects; some partner with for-profit firms, while others engage public policy via analysis and advocacy. This large, differentiated sector has established a robust infrastructure: peak organizations such as the Foundation Center and the Council on Foundations, sector-wide publication and public relations outlets, rapid response to legislation that could affect how foundations operate, university programs for relevant research and training, and a proliferation of networks (known as affinity groups) designed to coordinate program priorities and strategies from one foundation to the next.

No other nation has a foundation sector comparable in size, differentiation and infrastructure, though other nations, especially in Europe, with smaller and less developed sectors, are attempting to expand and institutionalize according to their own rationales.

In this essay I draw on the U.S. case not to suggest that it should, or can, be adopted elsewhere, but because it offer empirical grounding for asking a basic theoretical question: What is the rationale for a robust private foundation sector?

In addressing this question, I do not have in mind all American institutions that call themselves foundations – which number more than 60,000. Nor do I have in mind the significantly larger dollars that flow from private giving to philanthropy more generally. Larger yet is the nonprofit sector itself. The revenues of that sector come only 20 percent from private philanthropic and charitable giving. And only 10 percent of this amount comes from foundations. That is, the
60,000 foundations in America account for about two percent of the revenues of the non-profit sector.

And we will not concern ourselves with all 60,000 foundations, but only those with assets large enough to require a professional staff engaged in systematic grant-making across a number of issue-areas. This restrictive definition covers fewer than 200 foundations in the United States. Indeed, only half or 100 foundations have an asset base sufficient to give more than $12 million a year in grants. One could narrow the sub-set even more. The 25 largest foundations account for more than 30% of the sector’s asset base but represent only .0004% of American foundations.

Our focus, then, is not on the nonprofit sector, which is vastly larger in assets and program reach than foundations. It is not on philanthropy, which in the aggregate is nearly 10 times larger than foundation giving. And even in the foundation sector, we focus on a numerically small sub-set.

With this restrictive focus in mind, we turn to a conceptually-grounded understanding of America’s private foundation sector.

A generally agreed upon conceptual definition of the American private foundation is “untaxed private wealth, privately managed, on behalf of the public good.” To this useful starting point, I add a few other criteria that specify the type of foundations discussed in this essay.

**Endowment.** We focus on endowed foundations, those having a capital asset allowing them to continue their work indefinitely without having to raise additional funds. These foundations finance public goods from an asset they control and replenish through market investment. Collectively, they design grant-making programs that reach to many thousands of other, mostly unendowed, institutions.

These other nonprofit institutions that manage untaxed funds on behalf of the public good are financed through charitable donations, fees for service, membership dues, and government grants or contracts. Some may raise endowments, universities and hospitals are familiar examples, but only in order to fund their activities, not to make external grants.

**Social Change.** The type of foundation here focused on generally see themselves as bringing about social change, either directly or by supporting other organizations dedicated to changing social conditions. That is, the public works of the foundations differ from charity or service delivery, which characterizes the work of many nonprofits. The familiar metaphor, at least in the American tradition, is “root cause,” first made famous by John D. Rockefeller. In establishing his philanthropies, Rockefeller commented: "I do not believe in giving money to street beggars, but this is not reason why one should be exempt from doing something to help the situation represented by the street beggar."¹ To give money to the beggar is charity, is offering the band-aid of temporary relief. In contrast, philanthropy, or as Rockefeller put it, “scientific giving,” is changing the conditions that give rise to begging. Charity feeds the hungry, cares for the sick, shelters the homeless, but because it does not change what causes hunger, illness, or poverty, it cannot stop the endless flow of those in need. “The best philanthropy,” wrote Rockefeller,

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“involves the search for cause, an attempt to cure evils at their source.”\textsuperscript{2} This is Rockefeller’s formulation of the justly famous root cause metaphor.

This metaphor is not altogether satisfactory; it is quite difficult to pin down in practice. How deep do the roots go? While it is clear that relief to victims in the aftermath of an earthquake is charitable in motivation, urging building codes that would minimize loss of life in earthquake prone areas is more proximate to relief than, say, funding a program in a School of Engineering that studies earthquake resistant construction design. But even this would not qualify as a “root cause” grant in comparison to basic research on plate tectonics that might, someday, allow science to predict earthquakes with sufficient lead-time to evacuate the population at risk.

Thus, though we tend to describe the prototypical American foundation as one that generally attacks “root causes,” the social change vocabulary offers a more satisfactory definitional criteria. At the core of what nearly all foundations describe as their mission is the intent to make the world a better place, to improve on the current order of things: less of the bad things – poverty, war, sickness, illiteracy, violence, parochialism, hunger; and, conversely, more of the good things -- freedom, art, understanding, opportunity, security, education, health.

\textbf{Time-Frame.} Foundations with their own endowments, and focused on social change agendas, generally operate with a time-frame that stretches across years and even decades. The much celebrated “green revolution” funded by the Rockefeller Foundation involved grants that spanned several decades, and in some respects continues today, more than a half-century from the beginning point. The Ford Foundation set out to bring area studies to American universities in the 1950s, and is still today actively advancing this goal, suitably redefined to accommodate 21\textsuperscript{st} century international realities. There are many such examples.

Here the analytic point is that foundation grant-making strategies are not governed by election cycles, annual reports to stockholders, short-term bottom line considerations, or any other externally mandated constraints on the time-frame chosen for programs or even individual grants. The Packard Foundation, as an example, has since its founding in 1964 annually given a grant of approximately $30 million to one grantee, and intends to continue with this grant into the indefinite future.

The permissive time-frame gives rise to a number of terms favored by foundations – risk-taking, taking the long view, flexibility, innovative, strategic, entrepreneurial, and the like.

\textit{II. Privileged Status}

In the comments to follow, the (American-style) private foundation is an institution endowed with untaxed private wealth, used to make grants to other institutions that are expected to advance the public interest by facilitating desired social change. This is an institution whose privileges include wide latitude in deciding how to spend tax-free dollars, as long as this expenditure serves a public interest. The “public interest” is itself largely self-defined, and generally includes some reference to social conditions that will be changed as a result of foundation intervention.

\textsuperscript{2} Cited in Fosdick, p. 22.
What is the justification for these unusual privileges? What explains the legitimacy of the private foundation sector?

Though located in the sphere that is neither state nor market, the foundation shares traits with both. With the state it has an obligation to provide public services or goods that do not occur through the normal functioning of the market. But the foundation has no coercive powers, cannot legislate or regulate to bring about desired social conditions. Thus, though taking on a central function of the state -- protecting and extending the public good -- it carries out this mission by creating incentives rather than through coercion. The foundation, then, shares with the market a reliance on incentives. But the foundation earns no profit, offers no return to the investment of its donor(s).

These similarities and distinctions frame a question that though simple in the asking is difficult in the answering -- what, specifically, do foundations accomplish or represent that would otherwise be missing in society? Do they serve the public interest in some manner that is superior to the combined efforts of the government, market actors, and other institutions in the nonprofit sector?

The privileges granted to the foundation assume reasonable answers to such questions. Because these privileges start with untaxed wealth, we presume that foundations accomplish things that the government, were it to capture that wealth through its powers of taxation, would not or cannot accomplish. Because these privileges include freedom to set priorities irrespective of market demand, we presume that foundations can offer what the market does not or cannot. And a permanent endowment means that the foundation is privileged in ways denied to other nonprofit institutions, which are in continuous search of donations, member dues, fee-paying customers; and, as noted below, are accountable in ways the foundation need not be.

One explanation for the privileged status of American foundations (and for the nonprofit sector more generally) is that they serve population groups too poor to purchase from the market and politically too weak to matter to the state. If private foundations want to provide, say, college tuition for students of poor families, this is welcomed because it relieves what will be demands on the government or would reveal a failure of the market.

The argument that the market is indifferent if foundations give services to groups too poor to purchase them makes sense only if market indifference evaporates when profit-making opportunities appear, even opportunities initiated by private foundations. The hybrid seeds of the famed Green Revolution emerged from research institutions funded by the Ford and Rockefeller foundations, but were quickly commercialized. A sector of the higher education system -- low-end career preparation -- is suddenly viewed as a profit-making enterprise, and today millions of students purchase education from for-profit providers. When the market actors discover new profit opportunities, they are quick to oppose competition from taxpayer-subsidized enterprises (the university bookstore is often cited in this regard). In fact, the foundation takes pride if the outcome of a grant investment is “taken to scale” by commercial enterprises.

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3 DiMaggio & Anheier, 1990
The proposition that foundation privileges derive from providing what market actors can safely ignore is persuasive, but only partially so. The same is true if we shift attention to the state. Certainly governments, throughout history, have welcomed poverty relief or health provision by charitable organizations. But these same governments are less welcoming when the private foundation threatens to empower the disenfranchised or alter the balance of political forces. France under the sway of post-revolution political doctrine closed down Catholic foundations. Philanthropy in pre-colonial Africa was used to establish local authority, and disappeared when colonial powers created authority outside the traditional culture. Congressional committees in the United States have periodically investigated foundations viewed as too political in their grant-making, and there are laws limiting what foundations can do in the legislative and electoral arenas.

These examples suggest that only up to a point is the foundation granted a privileged status because it takes up tasks neither government nor market actors want to worry about. The “root cause” metaphor indicates why tension is implicit in what foundations claim they are doing.

In specifically rejecting charity as the philanthropic project and focusing instead on changing underlying conditions, the American foundation is in continuous search of market and policy failures. The foundation can be successful in its mission only by correcting for such failures as it itself defines. Market actors pollute? -- fund studies of regulatory reforms or support advocacy groups organizing consumer boycotts. Market actors ignore diseases of the poor? -- subsidize R&D on tuberculosis or malaria and then create pressure for products to be made available at subsidized costs. Public schools are failing? -- fund policy analysis, voucher programs, or local reform efforts designed to change how the government is managing public schools.

A rationale for the private foundation premised on the assumption that its privileged position results primarily from doing what the state and market allow it to do does not explain what happens when the foundation intrudes into their respective spheres. The American foundation is “intrusive” in this regard. Yet the sector continues to expand in numbers, assets and program reach. To explain this requires a fuller and more convincing rationale.

**III. Additional Propositions**

There are other propositions, which though less focused on specific privileges do offer rationales for the establishment of the modern foundation sector in the U. S. They all have merit, but neither individually or in combination are they fully satisfactory.

**Redistribution.** It is often suggested that foundations, like the deep tradition of charity from which they come, are redistributive and that this explains how they gained prominence in American society. Foundation grants, in this explanation, redirect money from the wealthy to the poor. This answer is especially important where the tax code exempts from taxation the private funds that establish foundations. Because these funds do in fact come from the wealthy, and because foundation programs do often disproportionately benefit the less well-off, redistribution presents itself as a plausible explanation for the public encouragement of foundations.
Redistribution may be part of an explanation. But the magnitude of redistribution is difficult to pin down. Funds that establish foundations would generally be taxed -- at rates from 20 to 70 percent depending on inheritance and estate tax policies. To calculate the redistributive effect, then, we should not start with 100% of the gift that endows the foundation but with a smaller fraction depending on tax rates. We also note that a great deal of grant-making is not redistributive. It supports universities, medical research, museums, operas, nature preserves – public goods used more by the reasonably well-off than the poor.

There are complex and unresolved empirical issues surrounding the measurement of redistribution, and it is difficult to be definitive regarding its directionality or magnitude. The benefits are likely, on balance, to flow downward though probably less dramatically than foundation claims imply. Even if the net flow is redistributive, there remains the question of whether the foundation asset is more redistributive than had it been taxed in the first place. It is suggestive that European countries, with their comparatively small foundation sectors, have preserved a strong welfare state based on higher personal and estate taxes than the U.S. will tolerate.

There is a further reason to doubt the depth of the redistribution rationale. There is an irony in the fact that foundations result from the accumulation of substantial private wealth and yet in instance after instance declare that their mission is to improve the lot of the poor and powerless. They go about that mission by helping to lower the barriers to upward mobility, by working to insure basic civil and political rights or by contributing to education and health for the poor. Foundations have not, however, gone about that mission by calling into question the political-economic arrangements that allow for great inequalities in wealth acquisition. This despite the oft repeated claim that foundations will find and eliminate the “root causes” of disease, deprivation, and discrimination. Private capital accumulation in very large amounts is unlikely to be viewed by wealthy philanthropists as a root cause.

Neither empirical evidence nor philanthropic logic leads easily to the conclusion that redistribution can serve as the primary rationale for the ubiquity of the American private foundation.

**Cost-Effectiveness.** A different argument suggests that foundations and the nonprofit organizations they fund have a better ratio of accomplishment to funds spent than does the public sector. The flexibility and imaginativeness of foundations, at least compared to cumbersome, risk-adverse government agencies, is given as the reason.

This is a difficult hypothesis to test, and in one important respect is counter-intuitive. Efficient use of resources presumes a bottom-line, a way to hold those who allocate funds accountable for their performance. The market is viewed as having the most reliable bottom-line -- products and services are purchased or they are not. Inefficiency is rapidly followed by ruthless punishment in

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4 The most careful analysis available concludes: “there is great diversity within the nonprofit sector, and no overarching conclusions about distributional impact can be made.” But there is no “evidence that benefits are dramatically skewed away from the poor and toward the affluent.” Clotfelter (1992), p. 22

shrinking markets and falling share prices. For government, the softer but still meaningful bottom-line is public support. The electoral theory of democracy rests on the assumption that there are always competitors eager to claim that they can more effectively discharge public responsibilities than can the current power-holders.

Nonprofit institutions other than foundations also have a version of the bottom-line -- for if their services are not cost-effective, there are always competitors trying to attract the membership base, user fees, tuition payments, government contracts or public acclaim. As noted earlier, the competitors might even be found in the for profit sector, as in the commercialization of segments of the higher education market.

The foundation is uniquely protected from bottom-line preoccupations -- no shareholders, no customers, no voters, no campaign contributors, no dues-paying members, and no clients who can withhold financial or moral support. Even attempts to hold foundations accountable to the wishes of the original donor turn out to be difficult. While it is easy to understand why foundation officers claim to be excellent stewards of funds in their trust, the conditions that make foundations what they are – latitude of choice and absence of external accountability – make this claim difficult to assess.

**Social Change.** Foundations operate from an implicit if not explicit notion of how their philanthropic dollars can change the underlying conditions that lead to bad things in human history. Many of the cliché terms found in foundation materials reflect this: leverage, go to scale, make a difference, counter-cyclical, venture capital, strategic partnerships, and so on. These terms are in search of the point of intervention that increases the odds that foundation funds will bring about desired social change. Does the foundation presume that ideas drive change, or that technologies do, or social movements, market incentives, government interventions, moral exhortation? If ideas drive change, invest in research and intellectual efforts; if government interventions are more important, invest in policy analysis and advocacy; if exhortation matters, invest in public education; if it is markets that count, practice entrepreneurial philanthropy. Grant making seeks the point of leverage judged to be most productive of the social change favored by the foundation.

The popularity of the social change rhetoric is simultaneously a way for the foundation to talk to itself about its aspirations and a way to justify itself to others. Bringing about desirable social change is probably the most common rationale advanced on behalf of foundations. There is no doubt that the American private foundations can claim credit for a long and still growing list of social benefits, starting with Carnegie’s libraries and Rockefeller’s public health campaigns.

The Council on Foundations shares with its members a list of ten foundation achievements which they might cite in explaining to the public the importance of foundations. It is an interestingly eclectic list: the 911 system for emergency calls; the Hospice movement; the Pap Smear in cancer treatment; Public Libraries, here citing Carnegie; the Polio Vaccine; Rocket Sciences; Sesame Street; White Lines on Highways; the Green Revolution, and Yellow Fever vaccine. Other thoughtful observers of foundation history add to this list such accomplishments as the Ford Foundation’s long investment in area and international studies, the Open Society of George Soros, the Annenberg Foundation’s school reform efforts, W.W. Kellog’s support of the
community college movement, early research on AIDS funded by the Aaron Diamond and the Robert Wood Johnson Foundation, and the MacArthur Foundation’s transformation of the field of security studies. Also appearing on many lists is the concerted effort by a handful of conservative foundations to change some of the basic premises of the welfare society that, in some accounts, led to the welfare to work reforms in the 1990s.

Though not wishing to subtract from the worthwhile ness of these achievements, skeptics might ask: How can we assess what would have been achieved in these domains in the absence of private foundations – for in practically none of the examples cited were foundation funds the sole source of support. Also, how can we assess the magnitude of social change in relation to the funds spent. There is no metric of foundation impact; there is not even a theory of social change that might point to a measurement strategy. We are left with case studies, anecdotal evidence, and often self-serving claims from foundations themselves.

For the sake of argument, however, we can set aside the skeptic’s question, and simply assert that significant, specific achievements can be attributed, at least in part, to foundation grant-making.

What cannot be claimed, it seems to me, is foundation credit for social change -- if we take that term to mean change at serious scale, which benefits large numbers of people, which is consequential over an extended period.

To make this point, I refer you to the United States in the second half of the 20th century. This is period in which the philanthropic foundation sector came to maturity. Foundations accumulated substantial resources, had strong and self-confident leadership, enjoyed widespread public support, and had ample opportunity to engage the standard repertoire of foundation causes. We ask of this period, what were the significant social changes and what was the role of foundations in shaping them?

It was a half-century of enormous cultural change. The 1950’s incubated the civil rights movement, certainly a transforming moment in American history. But this was a social movement organized principally by African-American churches. The university-based anti-war movement challenged authority figures and led to participatory democracy practices as well as greater transparency in government and business. The feminist movement rejected assumptions about the proper role of women in society, leading to changes felt in every corner of the world. Gay and lesbian rights came out of the closet. Environmental causes attracted their own mass base.

American foundations played supportive roles, though largely in an attempt to catch up with forces far more powerful than any they could have launched. Consider the environmental movement – wide scale public advocacy on issues ranging across climate change, ozone depletion, energy inefficiencies, recycling, air and water quality, toxic waste, and sustainable development. Government funded science and university research was critical to shaping what became the new environmental agenda. Membership based organizations, funded by dues and private contributions, forced policy changes. Public attitudes changed in response to media coverage and to civic leaders and politicians as they adopted environmental causes, often in
response to electoral pressures. There were foundation funds in this mix, importantly so, but they represented a fraction of the research, advocacy, and public education resources.

The latter half of the 20th century also witnessed a seismic shift in assumptions about the respective merits of the public and private sectors. The Reagan-Thatcher years took wealth redistribution off the political agenda. The view that a regulated economy is a more just economy was challenged. The belief that the state had responsibilities for the vulnerable gave way to privatization. The political left adopted a “third way” in which the public good is, apparently, better served under liberal market assumptions. Though a few conservative foundations, and the think-tanks they supported, worked hard on behalf of this large-scale shift, and provided useful policy arguments, a political transformation of this magnitude required electoral energy and funds far beyond anything foundations could offer.

And, of course, the most sweeping technological change since the introduction of fossil fuels helped define this half-century. High speed computers -- with their implications for how we learn, work, and play -- came from the market, leaving to the nonprofits worries about the digital divide, the promise of distance learning, or the hope that poor countries can propel themselves into the modern era on the back of the IT revolution. These are not small matters, and are fitting as foundation programs. But, again, it is foundations doing what they can to minimize harm and maximize good of large transformations well beyond their control.

The conclusion I reach is that foundations are marginal rather than central actors when it comes to large-scale social change – which results from social-political movements, shifts in political ideology endorsed by the mass electorate, and technology-driven market forces. Foundations can work to redirect these changes at the margins; they can selectively and partially prevent unfortunate side-effects; they can help bring causes to public attention. These are not trivial achievements, and they are properly celebrated in foundation circles. But to tie the rationale for the private foundation to its capacity to bring about social change is, I suggest, a claim not confirmed by history, at least if we have in mind change at serious scale.

Pluralism. Additional explanations for the ubiquity of American foundations and their public acceptance are found in arguments for pluralism. Such claims have merit. Foundations do play an important role in a strong nonprofit sector that is a necessary and perhaps even sufficient condition for pluralism. This sector provides a more diverse collection of services, institutions, and opportunities that can serve the state. The modern state is expected to provide approximately the same services or opportunities for all citizens, or at least all citizens within a category for which the service is provided. Diversity within the nonprofit sector allows for social experimentation, for trying out the odd practice or promoting the unpopular art form. Nonprofits contribute to pluralism because they are not beholden to the consensus-forcing expectations placed on the public sector, and are not obligated to realize a return on an investment.

The undisputable contribution to pluralism of the nonprofit sector, however, is only of limited use in justifying the private foundation. The vast, well-funded U.S. nonprofit sector receives perhaps two percent of its funding from private foundations. Nonprofits and their contribution to pluralism would remain a formidable presence in American public life without this trickle of funds. The obligatory reference to Tocqueville at this stage in the argument reminds us that an
active, voluntary association life in American society long predates the rise of the modern foundation. Comparative analysis is a further reason for caution. Even a cursory look beyond the U. S. offers numerous instances, particularly in Europe and Latin America, of strong nonprofit sectors in the absence of private foundations similar to those in the U.S.

The topics now reviewed – redistribution, cost-effectiveness, social change, pluralism – each contribute to an explanation for the growth and social acceptance of foundations in America. But, finally, they fall short. The extent of redistribution, the warrant for cost-effectiveness and the amount of social change are, I believe, not sufficient as a rationale for the American foundation. Pluralism cannot serve as the rationale, because it rests on a nonprofit sector that is way beyond the scope of anything private foundation funds can support.

IV. The Liberal Society

In conclusion, I turn to the broad principles of the liberal society in which, I suggest, we find a more satisfactory rationale for the prototypical American foundation. We can proceed empirically, with a few observations about American history; and also theoretically, by offering a more abstract account.

Notes from History. American liberalism has a long, close association with what theorists describe as the weak state tradition. American constitutional doctrine tried to ensure this through its establishment of a weak executive, separation of powers, extensive checks and balances, frequent elections and strong state’s rights. A minimal government implied minimal interference in the exercise of individual choice. The corollary is that the private sector, organized as for-profit firms and nonprofit institutions, will do what would otherwise be government’s responsibility. This produced tax policy hospitable to a robust nonprofit sector and to charity and philanthropy.

This general outlook was well-established in the latter decades of the 19th century, when rapid industrialization occurred. Liberal economic doctrine, buttressed by Social Darwinian thinking, allowed individuals who controlled oil, steel, banking and transport to amass huge private fortunes. Conspicuous consumption could rid its owners of some of this wealth, but for some it was too great to spend and for others, ostentatious spending was limited by religious scruples.

These were the Protestants of the “protestant ethic” so richly analyzed by Max Weber. This ethic emphasizes discipline and deferred gratification, and celebrates the thrifty, hardworking business drive that shaped modern capitalism. But while smiling on the greatest possible productivity, the Protestant ethic frowned on luxurious enjoyment of the wealth so earned. If work is to manifest God’s glory, the profits of work are to be reinvested in that which is socially beneficial. This was a convenient doctrine for those, such as John D. Rockefeller and Andrew Carnegie, who were both devoutly religious and wealthy beyond easy measure. Rockefeller put it bluntly: “A man should make all he can and give all he can.”

If wealth free of taxes accumulates in amounts too substantial to be consumed or given away in one’s lifetime, and beyond what can be bequeathed to children, there are a limited number of

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ways to dispose of it. One way, of course, is to create institutions that link private funds to public purposes. This is the best of both worlds – maximum public works with minimum control over private choices.

This rationale for private foundations, first formulated in a period of laissez-faire economics and minimal interference with private control of wealth, was not seriously questioned across the 20th century, even when the assumptions of classical liberal doctrine gave way to the new liberalism and Keynesian economics. By the end of that century, another surge of private wealth, based on the new information technology, found its way into private foundations. In terms that echo the late 19th century, the most recent captains of industry -- Gates, Soros, Packard, Hewlett, Moore – speak of stewardship, of an obligation to return to society some portion of what liberal doctrine allowed them to amass.

These historical observations help explain the tradition of American private foundations, but of course foundations, including many which meet our restricted definitional criteria, are not unique to America. A more theory-based observation is in order.

**An Analytic Comment.** Public goods are under produced by free market transactions. There arises, then, a social demand for public goods, and for their corollary, a public sector. The state can produce public goods by regulating market actors, and by exercising such powers as taxation, conscription, and eminent domain. In the liberal society, however, there is always the concern that an interventionist government will hamper market flexibility or encroach on personal freedoms. Public goods too aggressively provided threaten liberal values.

The test, then, for the liberal society is to have the greatest amount of public goods at the least cost to economic and political freedoms. A nonprofit sector which does not have to return a profit and which has no coercive power, will, then, produce public goods at minimal risk to personal freedoms. That is, what the liberal society wants, and what religious charity, private patronage and philanthropy provide, is a realm “where individuals undertake voluntary actions in concert with others to realize their version of the public good.”

The social legitimacy of the nonprofit sector arises out of its insistence that public goods be provided, but it retains the right to push back if the state encroaches too far into the sphere of personal freedom.

If this helps explain the nonprofit sector, how does the privileged private foundation fit in? Recall that the focus is on the endowed foundation, one not beholden to clients or customers. Its mission is, on the whole, more permissive and open-ended than other endowed institutions that have only institution-specific purposes. The foundation, in its focus on underlying social conditions, is free to choose (and change) its priorities and the manner in which it will serve the public interest.

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This is an institution uniquely positioned to represent liberal values. It is a non-coercive funder of public goods. Its untaxed wealth, unhampered by much in way of accountability provisions, is, I suggest, largely granted on this basis.

It need not do its job well. For example, it may not be redistributive or cost-effective or capable of bringing about important changes. These are matters for empirical determination, and have eluded serious study during a century of enormous growth in the foundation sector. My question is not how foundations perform against their self-defined mission statements. It is not even whether they are particularly important in sustaining pluralism, at least in comparison to the much more extensive civil society, which is what protects pluralism.

My question is what do foundations do, or stand for, that explains why they have been particularly favored in the United States, and perhaps why they are growing in favor across Europe. My simple proposition is that foundations mirror a central quest of the liberal society – how to attach private wealth to public goods without encroaching on individual freedom.

References Cited


