

Nonprofit Leaders Debate Foundation Disclosure

By Ian Wilhelm

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Should Congress require foundations to disclose information about how much of their giving supports the poor and minorities?

During the Philanthropy Roundtable's meeting, two nonprofit leaders clashed over this question.

Aaron Dorfman, executive director of the National Committee for Responsive Philanthropy, a foundation-watchdog group in Washington, argued that new regulations are needed to improve philanthropy.

Calling foundations "some of the most loosely regulated organizations" in the country, Mr. Dorfman said federal lawmakers should tighten rules to prevent foundations from financially benefiting their founders or their family members and improve oversight by the Internal Revenue Service.

In addition, he said charitable funds should be required to publicly say what their governance policies are and share demographic data about what populations their grants are benefiting.

According to a study his organization is conducting, only one-third of giving by large foundations benefits "marginalized communities," which he said included impoverished people, racial minorities, disabled people, and women.

Too much charitable money goes to "patronage giving" that only serves the elite of society by supporting arts institutions and universities, he said.

"Philanthropy is an underperforming national treasure," he said.

Federal and state lawmakers have expressed similar concerns as Mr. Dorfman.

In California, state legislators proposed last year a bill that would have required philanthropies to make public the ethnic and racial composition of their staff and board members, and of their grantees. After 10 big foundations in the state agreed to provide more funds to minority-led organizations, the legislation was withdrawn.

But members of Congress, most notably Rep. Xavier Becerra, a Democrat from California, have said they may introduce disclosure rules similar to California.

Mr. Dorfman described the California effort as a "noble, but flawed" idea that could be revised

at the federal level. "If drafted properly, it would improve foundations' effectiveness and their impact," he said.

Mr. Dorfman said disclosure requirements would not threaten the freedom of grant makers to decide what causes their money goes to, but simply provide a window into what philanthropy is doing. He compared them to the Food and Drug Administration's rule that food products must include labeling with nutritional information.

"Let me be clear: I don't believe that politicians should decide where foundation dollars go any more than I believe the government should mandate how much protein should be in a frozen pizza," he said.

But Heather R. Higgins, president of the Randolph Foundation, strongly disagreed with Mr. Dorfman, arguing that such federal rules would discourage wealthy people from setting up philanthropies in America.

"Under the law, the only rule is to be charitable," she said about foundation giving. "We don't say some charity is more equal than others."

"Under the guise of punitive transparency laws," she said, "if you bureaucratize philanthropy, if you raise legal fear in the people who are involved in it, if you compromise the joy and personal fulfillment that comes from spontaneity, innovation, opportunity, and the sense that you act efficiently and are actually making a difference, then you will have killed the goose that produces those golden eggs."

Despite their debate, the two nonprofit executives did find common ground.

Both said all of the money generated by the excise tax — a federal tax on foundations' net investments — should support federal oversight of philanthropies, and that foundations should exclude administrative expenses from their calculation of their mandatory payout. (The federal government requires foundations to give 5 percent of their assets to charity each year.)

To be sure, while the two agreed on the latter point, they took different approaches. Mr. Dorfman said legislators should make a new law to exclude overhead costs, while Ms. Higgins proposed abolishing the payout rule altogether; she said if given the freedom to decide their giving, many donors who establish foundations would choose to give a greater percentage of their assets to nonprofit causes.

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