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## Getting Megagifts to the Neediest Causes

By Gary A. Tobin

Megagifts -- donations of \$10-million or more -- are a critical component of American philanthropy. Such donations accounted for more than \$29-billion of the donations that charities received from 1995 to 2000, according to "Mega-Gifts in American Philanthropy," a new report by the Institute for Jewish & Community Research, a San Francisco think tank I direct.

Megagifts resonate far beyond their proportion of philanthropic giving. A large donation can instantly give the perception of validity to an institution or even an entire field, and prompt scores of additional donations. Large-scale donations in a particular field, such as the arts, can lead to increased and expanded services, especially for a small nonprofit group. What's more, a large gift often raises the ceiling for all successive gifts. Big donations set and reset the standards of giving to a particular institution or cause.

Most important, megagifts have a huge effect on whether society's needs are well met by philanthropy. So far, however, most big donations rarely reach any but the most prestigious institutions in our country.

The vast majority of megagifts are concentrated in three areas: higher education, health, and arts and culture. Colleges and universities captured the biggest piece of the giving pie, receiving 56 percent of all donations of \$10-million or more. Meanwhile, other types of charities received practically no big donations at all, including those that provide human services, protect the environment, serve minorities, and run umbrella appeals to benefit multiple groups. America's charities and policy makers need to consider the skewed distribution of megadonations and figure out how to change our culture, and our tax incentives, to better balance the distribution of money from the nation's most affluent and influential donors.

A lot of the donors of big gifts are entrepreneurs, and even though many spent their lives taking risks in business, they generally do not give money away in the same fashion. They want certainty that their dollars will go to good use. That is an understandable desire, but the result has been that most of the beneficiaries of big gifts are the nation's largest and most renowned. Most of the gifts were for projects that can be considered safe or risk-averse. Few went to institutions that were small or unknown.

Oddly enough, however, the institutions donors give to the most -- colleges and universities -- offer their big contributors less control than any other types of institution, and they are far less accountable. Under the protection of intellectual integrity and academic freedom, institutions often exclude donors from any involvement in controlling their gift once it is

made.

That is especially true if the gift goes into an endowment. Universities structure their endowments to exist in perpetuity, meaning they spend only a fraction of their return on investment to meet the current needs of the university. No laws or regulations govern how much universities must distribute from their endowments each year. Moreover, the size and prestige of the nation's universities have allowed them to attract some of the world's most successful money managers, so that the endowments keep growing. Given the huge fund-raising staffs at these elite institutions, there is certainly not a level playing field for the myriad nonprofit groups trying to obtain their share of philanthropic dollars, particularly large gifts.

Furthermore, in addition to megagift money -- which is subsidized by the federal tax breaks donors receive when they make a charitable gift -- colleges and universities also receive tax-supported funds from state legislatures, and grants from governments at all levels.

The top-10 endowed universities hold more than \$78-billion in their endowments (including restricted funds), more than the gross domestic product of the 75 poorest nations combined. Only 42 countries have gross domestic products larger than the endowments of these 10 schools. Chile, the Czech Republic, New Zealand, and Pakistan, for example, fall below this mark.

Donors considering making a megagift to a college or university must start asking themselves: At what point is an institution over-endowed, and are all universities deserving of indefinite support? An endowment should protect an institution from sudden unexpected revenue loss. Every business needs some reserves for a rainy day. However, an endowment should not remove a university from the need to justify its long-term mandate. Encouraging a policy of perpetual endowments shields institutions from their own failures. They are too insulated from market forces that could lead to change. Money from the public should support nonprofit groups, not institutionalize them.

Unfortunately, the accumulation of money has become a perverted measure of quality. For example, *U.S. News & World Report's* closely followed rankings of colleges and universities uses the size of the endowment as a key criterion for assessing their quality. The logic seems understandable: Institutions with more resources may be able to provide a better education. However, such assessments indicate that most analysts are more comfortable tracking how much money these institutions have, rather than the actual quality of their teaching or research. What's more, the rankings further demonstrate an obsession with accumulation: No amount of money is ever enough.

It would be wrong to diminish the positive reasons that people may choose to give to Harvard, Yale, or other such institutions. These colleges represent excellence and play important roles in the educational landscape. Furthermore, many alumni feel well-served by their alma maters and want to show their gratitude by offering support.

However, policy makers, donors, and nonprofit officials should engage in a thorough review of the nation's system of philanthropic support for higher education. Nothing in the current approach should be considered sacrosanct.

Among the questions:

- What marks the distinction between sufficiently endowed and insufficiently endowed universities? Current fund-raising efforts are arguably skewed in favor of institutions that lack need. Should the size of some university endowments be capped?
- Are tax policies that allow institutions to accumulate large endowments worth perpetuating? Currently, donations to college endowments offer the same tax benefits to donors as donations to all other charitable institutions. Yet, colleges and universities, as well as other large nonprofit institutions, are putting tax-subsidized donations in funds that are removed from the public domain and kept seemingly in perpetuity. The transfer of public funds to such institutions warrants close scrutiny.
- What are the appropriate roles of government, business, and philanthropy in financing human services, helping minorities, protecting the environment, and dealing with other areas of public concern? Is the current arrangement working?
- Do big donors stay away from supporting groups working in some areas because of their own personal interests, their lack of access and awareness of the work being done by such organizations, or other issues? If one reason is that donors do not have the knowledge or connections to institutions working outside higher education, health care, and the arts, then society needs to find a way to educate donors about other opportunities. More research that offers better insights into the decision making of big donors can help craft appropriate responses. But it seems quite clear that grass-roots groups need more opportunities to approach wealthy donors. Currently, such groups are at a big disadvantage in soliciting support, especially from donors of megagifts. Small worthy organizations can hardly compete with the experience, size, and resources of the fund-raising offices of major universities, for example. Foundations and other institutions should underwrite efforts to train grass-roots organizations in seeking funds, in writing grant proposals, and on other development skills so they can obtain the resources they need to fulfill their missions.

The tens of billions of dollars that are given through megagifts can have a huge impact on American society. Megagifts sit on top of the philanthropic pyramid, yet the vast majority of nonprofit groups and causes are ignored in America's highest-end philanthropy. While many of our city schools are in financial crisis and the homeless roam our streets, does Harvard really need yet another hundred-million-dollar gift? Today's system of giving by big donors is an indicator of the philanthropic world at its best, and perhaps at its worst.

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