

Foundations and Public Service

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AS A MEMBER of the board of trustees of the Russell Sage Foundation for the past 26 years and as its acting president and then president from 1931 to 1944, and also as president and member of the board of the Robert Schalkenbach Foundation for many years, Lawson Purdy has had a participating interest in that type of endowed institution which goes most commonly under the name "foundation." His close association spans the period of their greatest growth, many more than two-thirds of the present total number having been set up since 1925.

The philanthropic foundation in its broadest sense may be defined as an instrument for the contribution of private wealth to public purpose. As such it is as old as recorded history and includes many perpetuities and other types of organizations besides those we ordinarily think of as philanthropic foundations or funds. This article, however, is limited to the foundation in the American understanding of the term meaning a non-government, non-profit organization having a principal fund of its own, established to maintain or aid social, educational, charitable or other activities serving the common welfare.¹ In this more restricted sense the foundation is largely an American social invention, and its chief growth has occurred within the United States during the twentieth century.

Growth and Extent

PROBABLY THE FIRST FOUNDATION to be established in this country qualifying under this definition was the Peabody Fund, set up in 1867 with a principal sum of over \$2,000,000, and discontinued in 1914; although the Smithsonian Institution—established "for the increase and diffusion of knowledge among men," with a capital fund of something over \$500,000, and antedating the Peabody Fund by some twenty years—might lay some claim to first place. Then came the John F. Slater Fund in the year 1882;

¹ This is the definition used by the author of this article and F. Emerson Andrews in their book, "American Foundations for Social Welfare," published by the Russell Sage Foundation in 1946, and in various later articles by both of them. Most of the material here presented is taken from that study. It recorded 505 foundations and community trusts, having assets of more than \$50,000 each, culled from a list of more than 5,000. A later report by Rich and Deardorff includes some 899, but not all of these would qualify under the definition used here. Other investigators have estimated still higher totals; but it is believed that most of them are either too small as yet to be of much importance or would not otherwise meet the test here set up. While some new foundations have been instituted since our study, the total does not appear to be large enough seriously to limit the significance of our major findings here summarized.

the Baron de Hirsch Fund in 1890; the Thomas Thompson Trust in 1901; the Carnegie Institution of Washington in 1902; the General Education Board in 1903; the Milbank Memorial Fund in 1905; the Carnegie Foundation for the Advancement of Teaching in 1906; the Russell Sage Foundation in 1907; the Anna T. Jeanes Foundation and the Elizabeth McCormick Memorial Fund in 1908; the Carnegie Corporation of New York and the Phelps-Stokes Fund in 1911; and in later years a host of others, including the very large endowments represented by the Rockefeller Foundation and the Laura Spelman Rockefeller Memorial, the latter now consolidated with the other Rockefeller benefactions. In a list of American foundations compiled by Bertha F. Hulseman in 1930 for the Russell Sage Foundation Library, the total was seen to have reached over 150. Similar lists compiled for that library showed 23 in 1915 and 33 in 1922; but the numbers more than doubled in the next two years reaching 77 in 1924, and in two more years almost quadrupled, running to 121 in 1926. In the 1938 revision of her bulletin, Mrs. Hulseman names 157 foundations interested in and assisting work more or less directly related to social welfare.

Principal or Capital Funds

AMERICAN FOUNDATIONS in a recent year had aggregate capital assets estimated at \$1,818,000,000, with an annual expenditure, including direct operations and grants to outside agencies, of about \$72,000,000. This estimate of assets approaching two billion dollars includes information obtained from 265 foundations and estimated amounts from 240 others which did not release financial data at the time of this study, making a total just over 500 of foundations operating in the field of social and public welfare broadly defined. Most of these foundations, however, are small; only 36 were reported to have assets of \$10,000,000 or more, and the 30 largest were estimated to possess 87 per cent of the assets of all the foundations. The ten reporting largest capital assets, in order of size, were the following:

Rockefeller Foundation	\$189,527,823
Carnegie Corporation of New York	166,506,401
Ford Foundation	109,000,000
City Trusts of Philadelphia	88,083,541
Hayden Foundation	50,000,000
Kresge Foundation	47,516,062
Kellogg Foundation	46,825,011
Carnegie Institution of Washington	43,884,844
Commonwealth Fund	42,934,644
Mayo Properties Association	28,299,596

Two additional foundations which did not furnish financial data, the Hershey Fund and the Duke Endowment, are believed to fall within this asset range.

Because of the rapid and recent growth of foundations and their sometimes highly publicized achievements, public opinion tends to exaggerate the resources of foundations. The figures are substantial, but they fade considerably in comparison with expenditures in other fields. If the total *capital* of all foundations had been requisitioned for war purposes in 1944, they would have kept the United States war effort going less than eight days. If the total expenditures of all foundations for 1944 had been contributed to war purposes, they would have sustained our war effort only six hours and fifty-six minutes.

Comparisons with consumer expenditures in the luxury class are almost equally surprising. It is estimated that we spent 5.2 billion dollars (U. S. Department of Commerce figures) in 1942 for alcoholic beverages; one year's alcohol bill would finance all foundation expenditures, at their recent annual rate, for 72 years. One year's tobacco bill—2.4 billion dollars—much more than equals the endowment of all existing foundations.

Even in the field of private philanthropy the monetary contribution of foundations is relatively small. My colleague and I estimated, from income-tax contribution reports and other data, that the annual budget of private philanthropy in the United States runs about 2,706 million dollars. With their 72 million annual expenditure, all the foundations together have to spend somewhat less than three cents out of the average philanthropic dollar. But because foundations are organized solely to do an effective job of giving, and are profiting by cumulative experience, they are often the pioneers in new fields and the leaders of progressive movements, exercising an influence out of proportion to the mere 3 per cent of the budget of private philanthropy which is within their control.

The sums most foundations have available for immediate expenditure have been severely curtailed by reduction in interest rates. Probably a typical experience is that of the Carnegie Corporation of New York, which reported the yield on its investments at 5.2 per cent in its fiscal year 1922-1923, as 4.5 per cent in 1932-1933, and as only 2.7 per cent in 1942-1943. This is a decline of almost 50 per cent in 20 years in funds realized from a given capitalization, and a decline of a full 40 per cent since 1933.

Common stocks are appearing in increasing percentage in many foundation portfolios. This may represent a reaction against the exceedingly low

income now available from high-grade bonds, or it may be a hedge against the possibility of further dollar inflation. Current low yields of conservative investments are forcing a fresh consideration of the problem of safety *vs.* income, and apply a new and severe test to the principle of perpetual endowment.

Nearly all important modern foundations spend at least their income, though the theoretical allurements of compound interest on even small sums for long terms have beguiled some donors, including Benjamin Franklin. Franklin's will set up two funds, one in Boston and one in Philadelphia, of the value of \$5,000 each, a portion to be accumulated for 100 years, the remainder for 200 years. Neither accumulation met Franklin's hopes, but the Boston experience was the better. The 100-year part of this fund was used to build and help equip Franklin Technical Institute at a cost of more than \$438,000; the second part is still in accumulation until 1991, when it is to be divided between "the Town of Boston and the Government of the State." It recently amounted to \$868,000.

The economic, or perhaps economic-political, fallacy of long-term compounding is illustrated in terms of an imagined American dollar invested by Julius Caesar when he invaded Britain some 2000 years ago, at 5 per cent interest compounded annually. In 100 years it would have grown to only \$131.50. But in 500 years—445 A.D.—it would have been something more than 39 billion dollars. In 1000 years its value could be expressed only by a figure 22 digits long, and by last year—2000 years after investment—the original dollar would theoretically have grown to a worth expressible only by 43 digits. It is obvious that compound interest on any long-term fund would soon absorb all available investment opportunities, and long before that point was reached, society would find some way of limiting or liquidating it. The weight of practice and of social thinking is clearly against suspension of present activities in favor of problematical far-distant future needs. The Duke Endowment is the only one of the larger foundations which appears to have a current regular policy of accumulation, which in its case applies to 20 per cent of income until the accumulation shall reach 40 million dollars.

Many foundations are perpetuities by the terms of their charters, and many spend only income. Others may also spend from principal, and a few must disburse the whole of both income and principal within a set term of years. In the last group the Rosenwald Fund is an outstanding example, Julius Rosenwald having specified that the whole of both income and principal should be expended within 25 years of the time of his death.

Following Mr. Rosenwald's instructions, the trustees expended principal and income, and (in June 1948) completed the Fund's work well within that period. However, no widespread agreement among foundations on these policies can be reported at present; but a trend in recent years has seemed to be in the direction of allowing at least discretionary liquidation.

Fields of Activity

AMERICAN FOUNDATIONS concentrate most of their expenditures in the three fields of education, social welfare and health. The whole broad field of public service and welfare activities, in our study, was divided into nine major classifications, with ten subclassifications on which particular information was desired. A total of 335 foundations, including nearly all of the larger and more important ones, furnished information. The great extent to which foundations, however broad their charters, are finding it desirable and efficient to concentrate their activities within a single field is indicated by the fact that 171 of the reporting foundations—more than half—indicated only one of the nine major fields as absorbing any considerable share of their funds or interest in the year studied.

Nearly half—163 of the reporting foundations—indicated education as a field of major interest, and 48 of these concentrated all their activities in that field. Their support of education took many forms, including scholarships, fellowships, and student loans; assistance to teachers through salary supplement, retirement allowances, and study grants; subsidies to educational institutions, but with fewer contributions for building and endowment funds than formerly and more emphasis upon contributions for research in particular fields. They also supported research and experiment in general educational theory and practice.

Social welfare ranked second in number of foundations checking it as a field of major interest, but was probably third in terms of funds expended, since this list of 150 foundations includes many which are quite small, and classify their general charitable contributions under this inclusive term. Child welfare, family welfare, and relief were main interests of this group of foundations, but their activities varied all the way from one foundation which builds wading pools for children and one which awards hero medals, to broad programs of child welfare and far-reaching projects in social research.

Health, indicated by 129 foundations, was doubtless second in funds available, since this category included such large endowments as the Rockefeller Foundation and the Commonwealth Fund. Activities in the

field of health included actual treatment of disease in a few cases, hospitals and hospitalization, medical research, medical education, public health, and preventive education. Twenty-five of these foundations indicated mental hygiene as a subclassification of major interest. Doubtless because of war factors, 37 expressed special interest in the handicapped.

None of the remaining six classifications was selected as a major interest by many foundations. Recreation came first, with 51 foundations, many of which are community trusts, disbursing funds for local playgrounds and parks. Included in this group are a few foundations devoted entirely to particular branches of aesthetics, with art fostered by the Bache Foundation, Solomon R. Guggenheim Foundation, Nelson Trust, and Louis Comfort Tiffany Foundation; architecture by the American Architectural Foundation; music the special province of the Griffith Music Foundation, Juilliard Musical Foundation, and the Kathryn Long Trust; and the new Saxton Memorial Trust supporting literature, with the Danks Foundation shortly to offer awards in several of the arts.

Religion was claimed as a major interest by 37 foundations; international relations, including the foundations devoted to promotion of peace, by 26; race relations, also by 26; government and public administration, by 19; and the whole broad field of economics, likewise by only 19.

The relatively small number of foundations supporting fundamental research in the social sciences, including economics and industrial relations, is probably due in part to greater risks and also greater difficulty in putting into use discoveries in the social sciences as compared with discoveries in medicine or the physical sciences. "The average man," once said the late Frederick Keppel, "is far from comfortable in the presence of any deep-lying social problems, and in no mood to contribute toward their solution by supporting the very steps he extols when they are applied to problems in the natural sciences."

Despite this record, the need is so great, and the foundation so well suited to the task through its peculiarly independent position, that studies and work in the nature of fundamental social research should, and in all probability will, engage an increasing amount of foundation support and attention in the future.

Studies in public administration likewise beckon for increased foundation attention. Multiplication of governmental agencies and services may lead to serious dangers in a democracy unless critical and independent report and advice on the work of these agencies is somewhere provided. Foundations do not need to collect funds or maintain memberships, and

therefore can be and are remarkably free from the influence of pressure groups and party politics. They are in an unusually favorable position for conducting impartial studies of the operation of public agencies, and for doing pioneering research into new methods or new areas of need, for which a public agency could scarcely obtain tax funds.

A further opportunity for foundations is opening up in the international field, where the United Nations' Economic and Social Council has recently been charged with the duty of making or initiating studies and reports with respect to international economic, social, cultural, educational, health, and related matters. In the probability that the international machinery may at first prove unwieldy and slow, with funds not immediately available, it is suggested that one or several foundations might render outstanding service to the advance of knowledge and to international understanding by undertaking studies of some of the more urgent problems.

Methods, or Form of Service

IN ALL THESE FIELDS the *forms* or *methods* of service receiving a very large proportion of foundation support are research, prevention, exploration, and education (education, in the broad sense of the dissemination of knowledge). The feeling is apparently growing among those responsible for foundation programs that these are highly appropriate functions for tax-exempt and quasi-public institutions of this sort. And the call for public service of this type in an age of such rapid changes as the recent present, when new knowledge essential to the understanding of new social situations lags too far behind, would seem to offer ample opportunity for their resources and powers. It is recognized, however, that in practice many exceptions to such generalizations as to forms of service supported are to be found, and that even in assigning a large proportion to the support of research and education, these terms need fairly liberal interpretation. Demonstrations—which often include a certain amount of research and educational work and which aim to test methods and set examples rather than to establish institutions and programs for permanent outside support—have also found some favor with the foundations.

The Russell Sage Foundation

AS ALREADY noted, Mr. Purdy, in addition to maintaining a close relationship with the Robert Schalkenbach Foundation, served as a member of the board of trustees of the Russell Sage Foundation and headed that body for a long period. His service extended well over half of the Russell Sage Foundation's forty-two years of activity. At the end of its first forty

years, the Russell Sage Foundation, in a history published to mark the event, was able to point to an expenditure of something over \$21,000,000 for "the improvement of social and living conditions in the United States," its chartered purpose. This sum represents the income from an original endowment of \$10,000,000 given by Mrs. Russell Sage, and later increased by her to \$15,000,000. The amount expended in the forty years thus greatly exceeded the endowment.

Of this \$21,000,000, about \$12,000,000 was spent in the direct work of the Russell Sage Foundation's own staff, with the remaining \$9,000,000 being given in grants to 119 different social agencies and special projects. Studies of social conditions and problems, surveys, research, demonstrations, and grants to social and health agencies were the chief methods followed, with a trend in recent years, and a definite policy still more recently, to reduce or terminate grants in favor of direct operations.

The direct work of the Russell Sage Foundation has proceeded through the departmental organization of staff. Including two service departments, library and publications, these have numbered 17 in the forty years. During the last decade eight departments with a professional and clerical staff of some 80 persons carried on the active work. Under a new plan now in operation the permanent staff has been further reduced, special staffs being recruited as new projects are undertaken. Social work has been a chief field of service, but the studies have included a wide variety of related subjects and social problems, ranging from consumer credit and business cycles to administration of the WPA, and from recreation to labor relations.

Forest Hills Gardens was one of the early projects of the Foundation, intended to demonstrate the values of careful land planning and architectural controls. The Foundation originated the Regional Plan of New York, upon which it spent well over \$1,000,000. The idea of the development of specific areas as neighborhood units in city planning is in large part to be credited to the late Clarence A. Perry of the foundation's former department of recreation.

Some of the earliest experiments in educational measurement were conducted by its department of education, then under the direction of the late Leonard P. Ayres. The foundation has sold, on a cost basis, well over 5,000,000 copies of the measurement scales then developed; several types are still in wide use in American schools.

The playground movement received early support from the foundation, as did also the movement for the wider use of school buildings, and the development of community centers. Through its department of in-

dustrial studies it has conducted a long series of studies of industrial and labor relations, including fatigue due to long hours and other working conditions, accidents in coal mining, labor participation in management, and working conditions among women and girls. Social surveys have been a major interest. After largely financing the Pittsburgh Survey of 1907-09, the foundation conducted or aided surveys of social conditions in numerous other American cities. Studies of children's institutions and child care, of penal institutions, and of methods of simple effective interpretation to the public of facts of social significance, have been other important interests.

To record the results of its studies, the foundation in the forty years had published 126 different books and more than 500 pamphlets; and the number of these volumes sold runs into the hundreds of thousands. It has also given substantial assistance in various forms toward a number of books published under other auspices and to magazine publications.

Mr. Purdy's thoughtful consideration of the foundation's developing program over the years, his wholehearted interest in and encouragement of staff efforts, his understanding co-operation with the foundation administration, his almost unbroken record of attendance at board and executive committee meetings, and his intelligent and unfailing support in these and other ways of a kind of venture where freedom of inquiry and publication were fundamental requisites—these references all too briefly and inadequately summarize the contribution he has been making to the public welfare through his Russell Sage Foundation relationship. And it seems more than a modest hope that the experience of this foundation will be of some interest and use to American research foundations which appear destined to continue to be an independent original and important force for social progress.