TESTIMONY OF JOHN P. WALTERS,
PRESIDENT OF THE PHILANTHROPY ROUNDTABLE
BEFORE THE COMMITTEE ON FINANCE
UNITED STATES SENATE
March 14, 2001

Mr. Chairman and Members of the Committee:

Thank you for inviting me to testify. I am president of the Philanthropy Roundtable, a national association of more than 600 individual donors, corporate giving representatives, foundation trustees and staff, and trust and estate officers. Our associates include donors involved in philanthropy on a professional basis, as well as individuals for whom giving is a serious avocation. We provide publications and meeting programs designed to help donors get the greatest value for their charitable contributions. The Roundtable is not a “trade association” for donors, however. We do not take institutional positions on matters of legislation and regulation. The views I offer today are my own.

The most immediate issues before the Committee are related to the Administration’s tax and budget proposals. Since a vibrant private sector is critical to generating the wealth that makes philanthropy possible, the decisions you will make regarding what is good for the economy are central to the future of philanthropy as well. However, you will also consider proposals targeted on charitable giving, such as the new charitable deduction for non-itemizers. This is an excellent way to increase not only the amount Americans give, but the accountability that is a part of seeking support from many private individuals who must be convinced to give of their own wealth. I will be happy to discuss these matters in greater detail, if it would be of use to the Committee, but I wanted to use my opportunity to speak to you about the even more powerful trends that seem likely to produce truly historic changes in philanthropy, charitable giving, and the many societal institutions they shape.

The convergence of three trends offers the potential for revolutionary rather than incremental change: 1) a broad and renewed popular faith in principles of a free economy resting on individual enterprise; 2) an increasing popular realization that what the Rev. Martin Luther King Jr. called the "content of our character" is critical to our individual and collective well-being; and 3) historic high levels of wealth in many private hands.

The passage of welfare reform marked the decline in confidence that redistributive and entitlement-based social policies could effectively aid the poor, and the rise of market-based policies and programs. For both government and private philanthropy, market solutions are the growing tool of choice for helping everyone from single mothers on public assistance to recovering addicts to the disabled find employment and re-enter the mainstream of American life. In addition, many traditional charities are rushing to adopt private sector "business practices" in regard to management, finance and fundraising, strategic planning, marketing, and evaluation. Nonprofit business activity is exploding.

And when we face the limits of what the business model can accomplish, we look to religion. Whether or not they ever see a dime from the Administration's initiative for faith-based and community programs, such local institutions will be out there inspiring hope lost by the old welfare programs for helping the poor and the addicted, as well as criminals and anyone else whose behavior prevents them from taking full advantage of the opportunity and promise of American life. The new found importance of these organizations reflects a deep consensus—across political lines—that "the content of our character" is crucial but was not being addressed by the large, bureaucratic social-welfare agencies which dispense needed funds but little else. It is not that we now despise social workers and idolize missionaries. It is rather that there has been a popular recognition of the ability of faith-centered institutions to lift up the downtrodden and rebuild shattered lives in ways unthinkable to their secular counterparts.

Are We Ready to Receive What Americans are About to Give?

News stories on the rapid decline in foundation assets over the past year have taken some attention away from what had been unceasing reports on the growth in charitable endowments and giving. The most recent edition of the annual *Giving USA* report indicates that charitable giving in the United States surged 88 percent during the 1990s, reaching nearly $200 billion in 1999. Giving has gone up in almost every category, and many nonprofits—particularly top universities—hold record sums. Harvard's endowment topped $20 billion last year. That's higher than the GDP of many developing nations. Indeed, 34 schools now have endowments over $1 billion. And it's not just schools: according to the *Chronicle of Philanthropy*, the Salvation Army took in $1.4 billion in contributions from the public last year, and the YMCA, the Red Cross, and the American Cancer Society each received over $600 million in private contributions. Indeed, 105 charities received donations of $100 million or more last year.

Even with the recent stock market slump, a story on fundraising jitters that appeared in the *Chronicle of Philanthropy* found that approximately as many charities reported an *increased* amount of money in the last quarter of 2000 over the previous year, the height of the market surge. Another story on the "grim" outlook for charities featured a survey of 142 foundations, but found that only 15 of them planned to give away less money next year. Unreported in the story, or in a dour *New York Times* follow-up, was the fact that 62 of the 142 foundations said they actually plan to give out *more* grant money next year than in the record-setting 2000.

The trends of recent years are only the beginning, however. The best available projections of future trends in giving that I am aware of have been produced by Professors John J. Havens and Paul G. Shervish at Boston College's Social Welfare Research Institute. They have created three different estimates of the wealth that will be transferred between generations and to charity over a 20-year period (1998-2018) and a 55-year period (1998-2052). The projections reflect three different sets of assumptions from more conservative (including a 2 percent rate of economic growth) to more optimistic (3 percent growth rate) to most optimistic (4 percent growth rate). Over the period 1998-2018 the three projections are:

1. 2 percent growth model results in $12 trillion transferred between generations with $1.7 trillion to charity:
2. 3 percent growth model results in $14 trillion transferred between generations with $2.2 trillion to charity; and
3. 4 percent growth model results in $18 trillion transferred between generations with $2.7 trillion to charity.

The 55-year (1998-2052) estimates are:

1. 2 percent growth model results in $41 trillion transferred between generations with $6 trillion to charity:
2. 3 percent growth model results in $73 trillion transferred between generations with $12 trillion to charity; and
3. 4 percent growth model results in $136 trillion transferred between generations with $25 trillion to charity.

There are additional points to keep in mind. First, the projections above rely on past ratios of total estates given to charity in relation to other elements in so-called distributional dynamics (heirs, taxes, and fees and burial costs). Yet the most recent work done by these same scholars suggests that the percent going to heirs may be decreasing over time, as wealth increases, and the percent going to charity may be growing.

Second, this is just “new” money. Between 1980 and 1998, foundation assets grew by 799 percent from $48 billion to $385 billion. If this growth continues and only 5 percent of the assets are paid each year, excluding all new gifts and bequests, foundation assets will grow to between $4 trillion and $5.9 trillion by 2035, according to some estimates.

Let me try to put that in perspective. When J. Paul Getty died in the mid-1970s his wealth stood at approximately $1.5 billion. In the years since, Getty’s bequest has grown dramatically. Roughly $4 billion has been spent making and executing plans for the J. Paul Getty Museum and its related acquisitions and programs since J. Paul’s death—acquisitions on such a scale that the Getty was accused of driving up art prices throughout the world and absconding to Southern California with large parts of the artistic legacy of Western Civilization. And even after that more than $4 billion in spending, the Getty endowment retains roughly $5 billion.

But this is wealth on a 1970s scale. Let’s suppose that instead of the $100 billion figure quoted in recent years, Bill Gates’s net worth when he cashes it all in is only $60 billion, and further, that he only puts $58 billion more in his foundation (he has pledged to leave most of his wealth to charity and has already contributed $22 billion to the foundation), under current rules, the required annual payout on that sum would be $4 billion—the equivalent of a new Getty *every year*.

Imagine the institutions that can be created—and the influence that can be exerted—with that kind of war chest. Libraries? That translates into 200 million books each year—larger than the entire collection of the Library of Congress. Sports? How about a new athletic center for every Division I college, *every year*. Scholarships? That's a $4,000 scholarship for one million students. Think tanks? The annual budgets for all the major think tanks in Washington, D.C. (Right, Left—you name it) total approximately $200 million. Such a Gates foundation could fund, *in perpetuity*, a public policy apparatus 20 times larger than everything that already exists.

This Gates example is only a small fraction of the wealth now poised to come into the charitable and philanthropic world over the next several decades, however. My concern is over how little attention seems to be devoted to thinking about how we utilize these resources. The first line of defense here should be an informed donor with the skills and creativity to match the opportunities before us. We are working on this priority at the Roundtable. We know that waste, fraud, and abuse are the great dangers when large sums of money are poured into an area over a relatively short period. There is no doubt that many institutions would do well to think more about the potential effects of the coming philanthropic boom.

If current patterns are any guide, the great bulk of future philanthropy will go to churches and synagogues, and the programs they administer. (In 1998 almost 44 percent of all giving went to religion.) For those concerned about the spiritual health of the nation, a vast increase in religious giving would be a welcome prospect.

Current trends also suggest that much of the new money will go to educational institutions. Over $27.5 billion (14 percent of total giving) fell into this category in 1999. Recent years have brought some much-publicized expenditures on elementary and secondary education, and, particularly, support for reform efforts like vouchers or private scholarships and charter schools. All of these efforts show promise of continued growth.

Historically, the largest share of education giving has gone to colleges and universities ($20 billion of the $27 billion in 1999), with elite institutions receiving the greatest portion. This trend may not continue, however, as the wealthiest colleges and universities fall under increasing criticism for building bigger and bigger endowments—Harvard, Yale, and the University of Texas system together are worth more than the GDP of Bolivia—rather than spending resources on their students and their institutions. Some schools, most notably Harvard, have raised their endowment spending slightly in response to such complaints, but new windfalls are likely to intensify the scrutiny of current patterns in higher education giving.

The other major current areas of giving—human services, health, arts and culture, and environment and wildlife—will also continue to grow, and it is the sheer magnitude of this growth that raises the question of whether a simple projection of current patterns is really a helpful or accurate predictor of the future. There is clearly the potential for the coming trends in giving to force a fundamental reconsideration of current institutional arrangements and how they are sustained

Certainly there are challenges in the path of institutional change to re-privatize important aspects of our domestic life. One is the fact that the wealthy are not always located in proximity to the needy. But for a philanthropic community that has in the past dedicated itself to ending war, racism, and curbing world population growth, the task of matching up needs and resources in our own backyards would seem modest indeed.

This is not to argue that all government programs should be privatized. What it does mean is that a much larger share of social programs can be reconfigured to rely on local, private funding and, therefore, be accountable to local concerns. It also raises the possibility of strengthening our social fabric by more directly linking citizens and the institutions shaping their lives at the regional, local, and personal level. The rewards of giving and of honorably repaying a debt we all owe to others can be much more visible than when what is given must travel through a huge governmental bureaucracy.

This is another important reason to give some serious thought to wealth, giving, and the future of American institutions. As the nation was reminded in the long debate that culminated in welfare reform, the mere transfer of wealth is almost never by itself a solution to the problem of poverty or other societal needs. In fact, we know only too well that "philanthropic" dollars spent badly or wastefully make things worse, in some cases much worse. And finally, there is nothing about the ability of private individuals to provide for those in need that makes such private giving inevitable. Increasing it will require the individual decisions of many Americans, and their hard work.

As the 20th century reaches a close, Americans can take pride in, and give thanks for, the nation’s unparalleled record of generosity. In looking to the future, we should remember that the great engine of American philanthropy has two fundamental parts, the free-enterprise economy that generates astounding prosperity, and the good character of the American people that leads them to share their wealth for the benefit of so many. If we can maintain the vitality of both parts, the future holds the promise of truly revolutionary achievement.

Thank you again for this opportunity to testify.

John P. Walters

John P. Walters is president of the Philanthropy Roundtable, a national association of over 600 individual donors, corporate giving representatives, foundation staff and trustees, and trust and estate officers. The Roundtable provides publications and programs for donors on all aspects of charitable giving.

Previously, Mr. Walters was president of the New Citizenship Project, an organization created to advance a renewal of American institutions and greater citizen control over our national life. He was a member of the Council on Crime in America, a bipartisan commission on violent crime co-chaired by former U.S. Attorney General Griffin Bell and former Drug Czar William J. Bennett. He also is a co-author—with William J. Bennett and John J. DiIulio Jr.—of *Body Count: Moral Poverty and How to Win America's War Against Crime and Drugs.*

During 1993 he was a visiting fellow at the Hudson Institute, writing and speaking about anti-drug policy. Prior to that, Mr. Walters was appointed by President Bush and confirmed by the Senate as Deputy Director for Supply Reduction in the Office of National Drug Control Policy (ONDCP). Mr. Walters was responsible for developing enforcement policy and coordinating efforts to reduce the supply of illegal drugs. He also served as the senior advisor on national security matters related to drug control and senior liaison to the White House and all executive departments. Prior to his appointment as Deputy Director, Mr. Walters served as Chief of Staff and National Security Advisor to the Director of ONDCP from the Office's inception in 1989. And from November 1990 to March 1991, Mr. Walters served as Acting Director of ONDCP, overseeing both the international and domestic anti-drug functions of all Executive Branch agencies.

Mr. Walters was a creator of the Madison Center, a public policy organization devoted to advancing improvements in education and related fields, including early childhood education and drug abuse prevention. Mr. Walters served as executive director from September 1988 to January 1989. Between 1985 and 1988, Mr. Walters worked at the U.S. Department of Education, serving as Assistant to the Secretary and Secretary's Representative to the National Drug Policy Board and the Domestic Policy Council's Health Policy Working Group, and was appointed Chief of Staff and Counselor to the Secretary in 1988. Mr. Walters also served as Acting Assistant Director and Program Officer in the Division of Education Programs at the National Endowment for the Humanities from 1982 to 1985. He has taught political science at Michigan State University's James Madison College and at Boston College.