

Chapter 2

Foundations in Germany and the USA: Comparative Observations

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Attempts to explore the American experience and seek comparisons have been a long-running thread in the German foundation literature, even before research intensified at the European level during the 2000s (Flitner 1972; Neuhoﬀ 1975; Karpen 1980, and Toepler 1996). In contrast to the breakthroughs of the Johns Hopkins Comparative Nonprofit Sector Project in charting the nonprofit sector at large internationally (Salamon et al. 1999), comparative foundation research has nevertheless never gained similar traction in the United States or Germany. There are at least two reasons as to why this is so. First, foundations are too small an institutional form to draw broader interest and merit the resources needed to study them more carefully. Current estimates of some 82,000 US foundations holding \$622 billion in assets and spending about \$50 billion annually may seem impressive by themselves (Foundation Center 2013). However, put in perspective to the nonprofit sector as a whole—comprising some two million organizations with \$2.7 trillion in assets and \$1.5 trillion in revenues, foundations may appear as perhaps less significant societal actors (Blackwood et al. 2012: 1). The German foundation community is more diﬃcult to track but likely comprises some 17,000 institutions, albeit with no clear sense of total assets or spending (Maecenata Institut 2013: 7). Secondly, systematic comparative research continues to be hampered by the lack of a valid, internationally acceptable definition. Although there is agreement on a very general level of what a foundation is or not, a fundamental disagreement remains between Americans and Europeans when it comes down to definitional details. The divide is such that one can almost speak of two competing paradigms. Specifically, the term “foundation” is nearly exclusively equated

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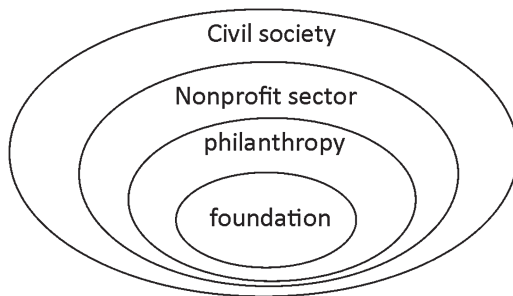
with grantmaking in the USA, which emerged early as the central feature of the century-old history of the American modern philanthropic foundation. In the Continental-European context, the historical development of the foundation form over a good millennium and a half yielded a broader understanding of what constitutes a foundation. Rather than just going by what the institution does (i.e., making grants), the idea of a foundation, as Strachwitz (2010: 684–85) holds, interrelates the constitutive concepts of giving (to pious causes originally and worldly ones much later), of memory (memorializing the founder), and of binding the institution lastingly to the founder's will. These different approaches to thinking of foundations pose considerable difficulties for any comparative efforts to capture the nature of the foundation as an institutional form. In addition, it also poses significant challenges for empirical comparisons due to the lack of reliable and truly comparable data.

What is more, many researchers less interested in the foundation form per se tend to mix up foundations with other terms and concepts, further complicating a clear conceptual view. To appreciate this particular problem of defining foundations in an international context, it is helpful to briefly revisit some of these other terms and concepts first. The perhaps broadest conceptual term is that of “civil society.” Unfortunately, there is an inverse relationship between the growing popularity of the concept in both scholarly and policy circles and the declining ability to reach consensus on what it actually means. The reasons for this lie in differences between normative views of civil society and more practical attempts to capture the concept empirically and make it useful in terms of policy interventions. In more policy-oriented debates, the tendency is to take an expansive view of civil society as a sphere of civic activity that is neither state, market, nor household (which would include foundations); in some scholarly discourses—particularly those of the neo-Toquevillean type—a more narrow understanding of civil society as associational activity (excluding foundations) is preferred. The term “nonprofit sector” (or third sector) is somewhat narrower, focusing on organizations that are, inter alia, prohibited from distributing profits to members or directors.

The term “philanthropy” is frequently used in several ways. Most literally it means the love of humankind, but its most poignant definition emphasizes the use of resources to examine and combat the “root causes” of social ills or problems. As such, philanthropy contrasts with traditional charity as eleemosynary, ameliorative use of resources. Notwithstanding this distinction, common and policy parlance typically equates the term philanthropy with private giving for public purposes—akin to the European term *maecenatisme* (*mécénat* in French; *Mäzenatentum* in German—private giving for public purpose most commonly used with regard to arts and cultural philanthropy). A further distinction can be made between individual philanthropy (donations, bequests, and volunteering) and institutional philanthropy. Institutional philanthropy in turn encompasses grantmaking by foundations, corporate support, as well as other financial intermediaries within the nonprofit sector, such as federated fundraising campaigns. Figure 2.1 suggests that the broader concepts subsume the narrower ones, i.e., philanthropy is generally considered to be part of the nonprofit sector, but does not encompass the same parameters.

While this chapter is focused on foundations, rather than philanthropy at large, the figure already suggests some of the core difficulties in a comparative assessment

Fig. 2.1 Conceptual frameworks



of foundations. American observers would likely place their grantmaking foundations within the innermost foundation oval; European observers would be hard pressed to follow suit. For example, many German foundations, like the Volkswagen Foundation to name but one, would fit there as well. However, many more would not. Consider the Bertelsmann Foundation, which as an operating institution runs its own projects and programs and is, as such, much more akin to other operating nonprofits than their grantmaking counterparts. Likewise, the prominent historical heritage of operating foundations that emerged from the medieval hospital or hospice foundation are foundations that comfortably fit into the nonprofit sector circle, but that do not seem to fit into the philanthropy (as just defined) or the innermost foundation circle at all. While a new trend in the more recent past has been towards the grantmaking form, the operating foundation still remains a constitutive part of the German foundation community identity.

Against this background, it is useful to explore some of the basic problems inherent in trying to compare foundations cross-nationally, which is generally more difficult than comparing other types of nonprofit institutions. In the following, I will first highlight the contrasting approaches to understanding foundations in the USA and Germany (or Europe more broadly) in order to shed some light on the structural differences that largely derive from differences in which the foundation as an institution is defined and commonly understood.

Moreover, to the extent that such structural differences exist, there are a number of implications for the way the respective foundation debates play out in the USA and in Europe and for the overall roles and functions that foundations play (and are expected or assumed to play) on both continents. Following the definition discussion, a second section of this chapter then compares and contrasts foundation roles and functions.

US Definitions and Foundation Types

In the American common law tradition, the two legal forms that foundation-like organizations can take are the trust and the corporation. A specific legal form for foundations does not, and never did, exist. At the time the “modern philanthropic foundation” began to emerge early in the twentieth century, it did so in a definitional

vacuum. The early modern philanthropic donors, including Andrew Carnegie and John D. Rockefeller as perhaps the most influential, typically chose the corporation form for organizations that looked, however, very different from regular operating charitable corporations. With the Carnegie Corporation of New York, the Rockefeller Foundation, and other early philanthropic foundations as models, the endowed corporation whose purpose it was to make grants to other nonprofit organizations began to operate without specific legal definition and regulation in place. Although Congress in various acts began to distinguish implicitly between public and private charitable organizations in the 1940s and 1950s, foundations were not subject to special supervision and regulation until public and congressional interest and criticism intensified in the 1950s and 1960s (e.g., Edie 1987). Congress finally imposed specific regulations on private foundations in the Tax Reform Act (TRA) of 1969, using tax law to distinguish between foundations and other nonprofit organizations.

Legally, therefore, the term “foundation” is essentially a creation of the tax law, which basically considers this type of organization to be donor-controlled (usually endowed) organizations. Foundations are thus characterized by the dominance of a single source of income—provided by the founding donor—as opposed to public charities with a more diversified income structure. Somewhat simplified, private foundations are a residual category and principally comprise those “501(c)(3)” organization that do not qualify for public charity status. The Internal Revenue Code grants a blanket exception from private foundation status to certain types of organizations, including hospitals and colleges and universities, regardless of income structure and establishes a number of “tests” to ferret out broadly supported organizations (public charities) from single donor-supported organizations (private foundations). Thus, the US. law fails to spell out a comprehensive positive legal definition. Instead tax regulation relies on various tests and exceptions to single out those “foundation-like” charitable organizations that Congress found in need of more stringent regulation and lesser tax privileges. Moreover, the TRA of 1969 also differentiated for the first time between operating and grantmaking foundations, easing for the former some of the harsher regulations imposed on the latter.

Without a clear legal definition of what a foundation is (beyond the fact that it is financially not widely publicly supported), a different approach to delineating the US foundation universe emerged. More specifically, F. Emerson Andrews (1956: 11) amid growing scrutiny of foundations in the 1950s defined foundations as “a nongovernmental, nonprofit organization having a principal fund of its own, managed by its own trustees or directors, and established to maintain or aid social, educational, charitable, religious, or other activities serving the common welfare.” In the pre-TRA 1969 era, Andrews was thus casting a wide net that encompassed also a large number of endowed institutions that “maintain” rather than “aid” activities. However, in the 1960s, the issue of the day was the mounting criticism of privately controlled grantmaking foundations that largely escaped public accountability. The New York-based Foundation Center (1999: 131), founded to preemptively contribute to the transparency and accountability of the foundation sector by making more information available to the public, subsequently modified Andrews’ initial definition somewhat to narrow the target of its reporting to those kinds of organiza-

tions that were at the core of the public debate and congressional investigations: a foundation is “a nongovernmental, nonprofit organization with its own funds (*usually from a single source, either an individual, a family, or a corporation*) and program managed by its own trustees and directors, established to maintain or aid educational, social, charitable, religious, or other activities serving the common welfare, *primarily by making grants to other nonprofit organizations.*” The two main modifications of Andrew’s original definition (as highlighted in the above quote) served to exclude organizations building endowments from multiple donations from the public at large (with the exception of community foundations) and to focus on predominantly grantmaking organizations. More recently, the Foundation Center further expanded its definition to be able to also include grantmaking public foundations: “A foundation is a nongovernmental entity that is established as a nonprofit corporation or a charitable trust, with a principal purpose of making grants to unrelated organizations, institutions, or individuals for scientific, educational, cultural, religious, or other charitable purposes (www.grantsspace.org).” More or less in line with this definition, five principal forms of foundations are usually distinguished in the United States:

- Independent foundations, i.e., organizations generally endowed by private individuals or families that primarily engage in grantmaking (Ford, Rockefeller, Gates Foundations)
- Company-sponsored foundations, which are similar to independent foundations but established by proprietary businesses (Ford Motor Company, American Express Foundations)
- Operating foundations, i.e., foundations that primarily operate their own programs or projects, but may also provide funds to other organizations (Getty Trust, Russell Sage Foundation)
- Community foundations which are grantmaking entities that receive their funds and endowments from a variety of sources (Cleveland Foundation; NY Community Trust)
- Public foundations (other than community foundations) which are entities that solicit the public at large to raise the funds necessary for their grantmaking programs (Ms. Foundation for Women)

European Definitional Approach and Typologies

In the Continental European civil law tradition, there is a basic distinction between associations and foundations as the two main legal forms for nonprofit institutions. Their key characteristics are that associations are member-based, whereas foundations are asset-based organizations. Members may contribute assets to an association, but the foundation does not have members. Accordingly, the founding act and the donor’s intention to transfer assets to an independent organization, bound by the donor’s will, becomes part of what constitutes a foundation in the European understanding. The nature of the required assets has traditionally not been specified legally, and assets are not necessarily comprised of financial endowments or other

income-producing assets. By contrast, foundations can be established with a variety of nonfinancial assets, such as art collections, or even institutions, such as a museum or a hospital. Where institutions form the core assets, European foundations may or may not hold additional income-producing assets to support the institution's operation. With this small, but important difference in mind, a general typology of European foundations can be drawn up (Toepler 1999a: 219).

- *Private foundations.* Similar to independent foundations in the United States, most European foundations are established by individuals or sometimes families (usually as joint gift of two spouses). As in the United States, privately endowed foundations range from large multipurpose foundations established by major industrialists to medium-sized and very small foundations.
- *Operating foundations.* Neither the general law nor tax regulations distinguish explicitly between grantmaking and operating foundations in Europe. Accordingly, many foundations operate either institutions or self-administered projects. In some countries, operating elements prevail even among the largest grantmaking foundations.
- *Company-sponsored foundations* in Europe are generally established by corporations as independent legal entities under private law and do not differ significantly from their US counterparts.
- *Company-holding foundations*, a subgroup of private foundations, are established by proprietors of business corporations to control these businesses after the proprietor is retiring. Such foundations are a means of preventing power struggles among heirs or large inheritance taxes from breaking up the company. Indeed, the option to bring companies under the control of foundations is seen as a major incentive in Europe.
- *State-administered foundations:* Private citizens have traditionally bequeathed endowments to public institutions such as city administrations or public universities, thus leaving the administration of charitable trusts to state agencies, but also the Churches, rather than to banking or community institutions as in the nineteenth century United States. The receiving public agency is legally bound to abide by the respective donor's stipulations. These state-administered private endowments are functional equivalents of the common law trusts that ushered in the community foundation movement in the USA. Recent years have seen an explicit movement to transfer the American community foundation model to Europe.
- *State-sponsored foundations:* In Germany as in some European countries, governments create or sponsor foundations themselves for a variety of reasons. In fact, two of the largest German foundations, the Volkswagen Foundation and the Federal Foundation for the Protection of the Environment, are independent foundations established by the state and endowed with proceeds from the privatization of state-owned enterprises. The *Stiftung Preussischer Kulturbesitz* (Prussian Cultural Heritage Foundation) was founded to serve as holding institution for the cultural institutions and artifacts that formerly belonged to Prussia, which was dissolved after WW II. With its many museums, archives, and research institutes, the *Stiftung Preussischer Kulturbesitz* rivals the Smithsonian Institution, its functional

equivalent, in size and importance. Yet another example of a state-sponsored foundation is the *Alexander von Humboldt Stiftung*, which was formed to support science, research, and intercultural understanding. Formed with a negligible pro forma endowment of a few thousand dollars (5.000 DM in 1953), it finances its work almost exclusively through annual public allocations. In cases like this, the relationship between state-sponsored foundations and the state is principally the same as the relationship between a company-sponsored foundation and the sponsoring company.

Competing Paradigms?

Comparing the typologies suggests that the USA and European foundation sectors are very close cousins in some respects, but at best distant relatives in others, suggesting a very basic, paradigmatic difference in the way Americans and Europeans tend to look at their foundation sectors. All too easily masked by the apparent similarities, the small matter of the nature of foundation assets introduces a major conceptual challenge into the comparative discussion. If we follow the European tradition and argue that the nature of assets is irrelevant for defining a foundation, then it follows that the aspect of grantmaking is an incidental rather than a constitutive characteristic of the foundation as an institutional form *per se*. At issue then is the role and relative importance of operating foundations, which continue to play an important role in the self-definition of the German foundation community, largely due to their historical prominence.

As an illustration, the most popular example is the presumably oldest, still existing foundation in Germany, the Hospital Foundation zu Wemding, which traces its origins to the tenth Century. Endowed with a forest, it managed to persevere through a few turbulences of the past millennium of European history (Strachwitz 1994: 13). Operating foundations, like Wemding, developed as legal constructs in the fifth and sixth Century, as Justinian Law began to allow bequests for religious and charitable purposes (*ad pias causas*) to establish independent, though Church-supervised institutions (Coing 1981). This enabled the widespread emergence of hospice foundations, which were typically devoted to perform the biblical Corporal Works of Mercy (feed the hungry, give drink to the thirsty, cloth the naked, shelter the homeless, care for the sick, visit prisoners, bury the dead).

Medieval hospice foundations survived over the centuries and transformed into modern hospitals or homes for the elderly, the disabled, or the needy; they remain vital parts of the European foundation communities. Joined by research institutes and cultural institutions in foundation form since the nineteenth Century (Strachwitz 2006: 220–221), operating foundations either dominate the foundation sectors in some countries, such as Italy and France, or account for a substantial part of the total foundation universe, as is the case in Germany (Anheier and Toepler 1999: 13; Anheier 2001: 48).

Table 2.1 Number and Assets of foundations and select other types of endowed institutions

| Type | Number | % | Assets | % |
|----------------------------------|--------|-------|---------------|-------|
| Nonoperating foundation | 67,670 | 83.81 | 578,749,355 | 32.1 |
| Operating foundations | 4807 | 6.0 | 35,906,295 | 2.0 |
| Institutions of Higher education | 1977 | 2.4 | 467,090,494 | 25.9 |
| Hospitals | 4565 | 5.7 | 685,915,030 | 38.1 |
| Medical research organizations | 1723 | 2.1 | 33,406,369 | 1.9 |
| Total | 80,742 | 100.0 | 1,801,067,542 | 100.0 |

Source: Based on NCCS Core File (Public Charities, circa 2006)

While operating foundations maintain a strong and visible presence in European foundation communities and many other parts of the world, they appear to figure less prominently in the United States. This is so because in the common law tradition, there is less of a clear-cut distinction between operating foundations and other (endowed) charitable institutions. This is not to say that there are no operating foundations to speak of. As of 2012, the J. Paul Getty Trust, operating its cluster of museums and research institutes in Los Angeles, had the third largest financial endowment of all US foundations (\$9.6 billion) after the Gates (\$37.4 billion) and Ford Foundations (\$10.5 billion). In addition, there are other institutions that are de facto operating foundations although they are not normally considered as such in the USA. This includes the Howard Hughes Medical Institute with a 2011 endowment of \$16 billion (which, by virtue of a settlement agreement with the Internal Revenue Service, is classified as medical research organization, although it is formed by an endowment) and arguably a wide variety of colleges and hospitals. If universities and hospitals with their endowments would be counted as operating foundations, the list of the largest US foundations would be largely dominated by them (Toepler 1999b: 177–178).

Looking at the US foundation sector with German lenses suggests that the US operating sector would be considerably larger than it appears to be now. Table 2.1 shows the accumulated assets of grantmaking and operating foundations, as well as the assets of some types of public charities that are specifically excluded by law from the private (operating) foundation category. Although grantmaking foundations still account for more than 83 % of all endowed institutions, their combined assets constitute merely one-third of the total. This is due to the concentration of assets within the trilogy—Institutions of Higher education, Hospitals, and Medical research organizations—which accounts for 65.9 % of all assets (Table 2.1). This high figure is also the result of the share attributed to the institutions of higher education, which stand for more than a quarter of all combined assets. What the US foundation sector would look like if such operating foundations were added to the mix remains anybody's guess, but chances are that the dominance of the grantmaking foundation would not be as pronounced by far as it appears to be on the surface.

However, having an endowment is not a sufficient criterion to define a foundation. Using the example of private universities again, Harvard and Yale were founded and originally financed by the governments of their respective colonies. As such, they lack most of the characteristics of an operating foundation even by European

standards. The case is quite different though with other private universities, such as Stanford, Chicago, and Johns Hopkins, which all had a donor (Rockefeller among others in the case of Chicago) who initiated the establishment of the institution with sizable financial commitments. For all practical purposes, they are as much a foundation as are the Getty Trust or the Rockefeller Foundation.

Conversely, following the American implicit assumption that a capital-based endowment (and hence the ability to make grants) is the defining characteristic of a foundation would, in turn, have severe consequences for our understanding of the European foundation field. Non-grantmaking, operating foundations would drop from sight. Using rough data provided by Anheier (2001: 52), this would mean that the foundation communities would shrink by at least 25 % in Germany, by 30 % in Finland, by 40 % in Italy, and by 70 % in Ireland. In Switzerland, Spain, Portugal, Greece and France, the foundation sector would essentially disappear.

Adopting the American view of foundations is no doubt a hard pill to swallow for Europeans for two reasons. Firstly, many significant analytic discourses in the past have largely taken place among legal scholars (particularly in countries such as Germany). It is therefore easy to find legal histories of the evolution of foundations in Europe, but much harder to find economic or social accounts. Whereas a good amount of time has been spent to explore the civil and tax law implications of various ways to structure the business ownerships of foundations, much less attention has focused on the efficiencies or social impacts of company-holding foundations (Goerdeler 1989; Römer 1990). Accordingly, Germans are more prone to stick to legal traditions rather than letting the debate be driven by policy considerations (as Americans tend to do).

Secondly, with European foundations still not fully integrated into the policy mainstream as American foundations tend to be (for better or worse), there is still a good deal of need for advocating the importance of these institutions as well as better legal and tax frameworks. From a purely practical point of view, effective advocacy requires “strength in numbers” and hence the maintenance of a broad and inclusive definition of foundations.

All in all, the definitional twain will not likely meet: German experts would not willingly admit that the Hospital Foundation in Wemding is, in effect, not a foundation; nor would their American colleagues easily accept that, say, Stanford University is among the five largest US foundations. All of this is not to say that we cannot have a meaningful comparative discussion of foundations, but it is imperative to keep this difference in mind as it has some implications for the way in which academic and policy discourses think of the societal potential of foundations.

Roles and Functions

Foundations do not exist in a social–political vacuum, but operate within a set of constraints set by political expectations as to their uses and contributions to the polity at large. Arguably, foundations, albeit on a much more limited scale, do perform functions similar to what governments do by either providing some public

service on their own or funding third parties to do so. One way or the other, the relationship between state and foundations is crucial and the relative well-being of a given foundation community in large part depends on what the respective expectations are for foundations and how well foundations are perceived to perform according to such expectations.

Structural differences (grantmaking vs. operating), as discussed in the previous section, will greatly influence broad expectations and thus how the roles and functions of foundations are perceived in Europe and the USA. Attempts at clarifying appropriate roles (against and independent of the state) are still in their early stages, but there is a wide range of possible roles available for foundations to pursue. Over the past century, a substantial body of literature has emerged that attempted to circumscribe the special roles and functions that grantmaking foundations might perform, or might be expected to, given their unique institutional characteristics. Drawing on various recent efforts to summarize the thinking on this issue, Anheier and Daly (2007: 27–43) derived seven more or less distinct roles of foundations from the literature:

- **Complementarity:** In this role, foundations primarily serve social needs that are outside the scope of government action (on constitutional or political grounds).
- **Substitution:** Foundations provide collective goods and services in lieu of government.
- **Redistribution:** A primary function of foundations is to redistribute wealth from the upper to the lowest socioeconomic strata of society.
- **Innovation:** Foundations foster and promote new solutions to social problems and alternative to existing practices.
- **Social and Policy Change:** Foundations pursue structural changes in society, particularly on behalf of groups without voice in the political process.
- **Preservation of Traditions and Cultures:** In contrast, foundations seek to preserve and maintain the status quo in the light of broader societal changes.
- **Promotion of Pluralism:** Foundations support the competition of ideas and concepts in either social or political and policy terms.

Foundation Roles in Germany

Based on literature reviews and interviews with foundation leaders, Adloff et al. (2007) investigated the self-perception of roles by German foundations. For illustrative purposes, Fig. 2.2 maps the German responses in a foundation roles continuum from irrelevant to highly relevant. The individual roles are positioned according to the degree of agreement that a given role is fully or at least somewhat applicable. As the figure shows, there is near universal agreement that European foundations perform the complementarity role. Likewise, there is a similar consensus that fostering innovation constitutes an important role for foundations, although the interpretation of this role occasionally merges with complementarity to the extent that innovation is sometimes defined vis-à-vis government (i.e., innovation is something

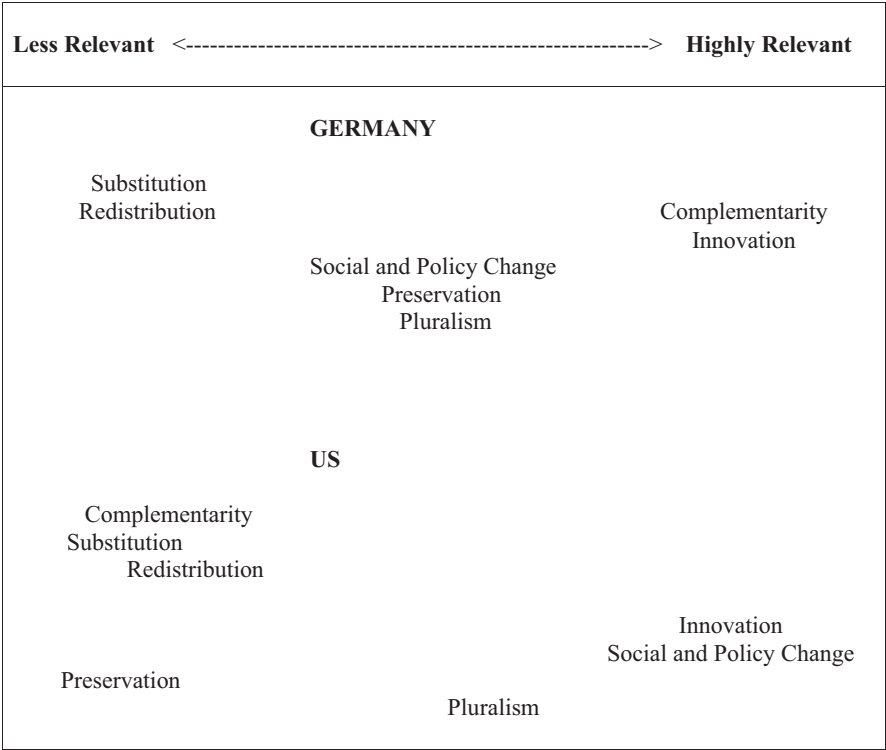


Fig. 2.2 Foundation role assessment, Germany–US

that government is not capable of). Adloff et al. (2007: 177–180) suggest that the German foundation community is split into two camps: there is a corporatist camp that traditionally embraced the complementarity function, providing or supporting services next to, and in addition to, government provision. And there is a liberal camp that more wholeheartedly embraces the innovation role, stressing distance and independence of the state.

At the opposite end of the continuum, the substitution and redistribution roles emerge as barely relevant. In fact, German foundations outright reject any notion that either constitutes an appropriate role for foundations to assume. Notably though, substitution—that is the hope that more favorable treatment of foundations might help leverage additional private funds to help fill gaps in the public financing of social services—has largely been behind the growth of political interest in foundations (and civil society more generally) over the past two decades. The shifting definitions of state responsibilities likewise complicate the traditionally accepted complementarity role, whereby today’s substitution will eventually become tomorrow’s complement. Between the extremes, other roles, including social and policy change, preservation, and pluralism, are prevalent, but not salient in the German debate.

Foundation Roles in the American Context

As suggested in Fig. 2.2, four of the roles have little, if any, salience in the US context, while one is modestly and two are highly relevant. In particular, the substitution and preservation of tradition and culture roles have no resonance or relevance in the US context at all, as evidenced by a near complete lack of a discussion of these roles in the foundation literature or policy debate. In terms of substitution, it is the case that funders occasionally worry about government cutbacks or other revenue shortfalls in particular fields of activity and the prospect of having to divert resources to help secure basic funding levels. However, such concerns relate for the most part to the perceived ability of foundations to maintain other roles over the short run, but do not reach the systemic question of whether substitution may be an acceptable (or even debatable) permanent role.

At the same time and in contrast to Germany, there appears to be little expectation by policy-makers that foundations would (or usefully could) step in and fill gaps left by the government's retreat from prior responsibilities. Government "exit strategies" tend to focus on creating incentives for individuals or markets to address needs rather than creating incentives for philanthropic intervention. Another reason for the virtual nonexistence of a "substitution debate" in the USA also helps to explain the lack of relevance of the preservation function. Both functions in the German context highlight in some measure the roles of operating foundations, but in the USA, operating foundations (except for those that also maintain grants programs) are largely absent from the foundation debate for conceptual as well as regulatory reasons, as discussed above.

In terms of redistribution and complementarity, these roles are traceable within the US foundation discourse without, however, gaining a definitive status. The redistribution role is occasionally discussed, but has little bearing conceptually and is rather limited practically (Wolpert 2006: 144). In essence, that foundations support causes, such as high culture or elite education, which may benefit the affluent more than the disenfranchised, is generally acknowledged, but not perceived as a significant problem.

Complementarity, by contrast, presents a more complex picture. In the defining early years of the ascendancy of US foundations, both the Rockefeller and Carnegie philanthropies relied heavily on working with and through public institutions, which arguably contributed to the success of their work in the first half of the twentieth Century. The complementary nature of foundations was also a staple in the arguments in favor of foundations in the course of their critical examination through Congress in the 1960s. The Treasury Department (Treasury Department 1965: 13) assessment of the foundation field allowed for a "vital role" in "providing for areas into which government cannot or should not advance."

Likewise, the so-called Petersen Commission asserted that a diversion of funds from the treasury (e.g., tax exemption) is "strongly justified when private philanthropic money is used, not as a substitute for tax dollars but as a supplement of a special kind that serves the public interest in ways in which the government itself is

under various operational constraints (Commission on Foundations and Private Philanthropy 1970: 15).” Since the 1970s, however, the complementarity role has largely disappeared from the foundation discourse, although it is still traceable in foundation practice. The Annenberg Foundation’s arts education initiative, a challenge program to reintroduce arts education into public school systems, is an example of the complementary role with some substitutional element to it (since the initiative reacted to arts education cuts in public school budgets).

The pluralism argument was a corollary to the references to the complementarity role in the 1960s and 1970s. In contrast though, it has retained a measure of relevance in the foundation discourse, primarily with reference to foundation support of the private nonprofit sector (Prewitt 1999: 27–29). Given the relatively small contribution of foundations to overall nonprofit sector revenues, the pluralism case is inherently weak, and the proliferation of foundations may thus be seen as a sign rather than a cause of pluralism and societal openness.

While, apart from pluralism, most foundation roles are given little credence in the USA, the societal “change agent” function, which is either the innovation or the social/policy change role of foundations, is probably the most recognized and widely discussed function. The relative centrality of the change agent function to the self-identity and the external assessment of the foundation field is widely reflected in the critical discussion of foundation work. Many observers, for example, bemoan an apparent short-term focus within foundations. The trend in the field has been towards funding short-term projects and specific programs rather than committing to long-term general support of potentially highly innovative organizations. This problem has frequently been associated with the emergence of a “program officer profession.” The argument is that foundations have become more risk-averse and less innovative, because professional foundation managers prefer to fund smaller and safer programs so as not to have to take personal responsibility if larger and riskier projects fail (Frumkin 1998: 274–75).

Comparing Foundation Roles

Although German and US foundations’ roles are merely illustrative, the discussion nevertheless suggests that there are some commonalities between the United States and Europe, but it also underscores some fundamental differences in foundation role assessments and outlook. To some extent, the similarities can be traced to early research of the American foundation community by German scholars, such as Flitner (1972), Neuhoﬀ (1975), Karpen (1980), or Seifart (1988), who introduced American role conceptions into the German foundation debate. By the same token, any dissimilarities likely result from the lack of a reverse information transfer about the German and European foundation communities into the USA.

The commonalities include a clear rejection of substitution and redistribution as appropriate roles for foundations; a half-hearted acceptance of the pluralistic function; and a full embracement of innovation as a role to which foundations should

aspire to fulfill. Although the innovation role defies precise definition, there nevertheless appear to be some differences in the way the role is contextualized on both sides of the Atlantic. In the United States, the focus is on societal innovation with little apparent cross-references to the role of government. While foundations have in the past worked with or through government agencies, and continue to do so, the relationship with the public sector remains largely undefined. Much of the innovation discussion largely treats foundations as operating in an institutional vacuum, apart from the nonprofit sector as the implementation mechanism of foundation work. Moreover, many, if not most, foundations tend to shy away from engaging government, which is in part due to concerns about potentially violating the prohibitions on political activities imposed in the Tax Reform Act of 1969.

In Germany, by contrast, the state does serve more explicitly as a reference point for the self-definition of foundations in the innovation role. Critical views of government as bureaucratic, slow, inflexible and unresponsive provide an opportunity to define foundations in a positive light. The pursuit of innovation is therefore less of a desiderata *per se*. Rather, the *raison d'être* of foundations lies in providing a counterpart to, and compensating for, the institutional–operational drawbacks of the public sector—a line of argument that remains largely unexplored in the American context. This difference in the way the role of the state flows into the self-understanding and self-definition of foundations also underlies the single-most important divergence in role assessments concerning the importance of complementarity. While German foundations tend to feel comfortable describing their work as a complement to the state, complementarity has largely become a nonissue in the US debates.

Conclusion

From its inception a century ago, the modern American philanthropic foundation has become the gold standard by which foundations all around the world are measured. In no small part, this is due to the fact that the largest US foundations always had substantial international programs and interests that made them well-known beyond the borders of the USA. This is true for the Rockefeller Foundation in the early twentieth Century, the Ford Foundation's extensive international portfolio in the second half of the twentieth Century, and most recently the global development interests of the Gates Foundation. As the postwar expansion of the welfare state came to a halt during the economically tumultuous 1970s and fiscal retrenchment and privatization emerged as major themes in the 1980s, European policymakers latched on to the American model and interest in foundations as potential sources of revenues to fill gaps left by eroding state support increased.

Accordingly, the political hopes to draw out more private money for public purposes led to the various efforts over the past two to three decades to improve the regulatory climate across Europe. However, as this chapter tried to emphasize, the political hopes and aspirations are not necessarily well matched to the historical and

institutional contexts that still shape the nature of the European foundation fields in terms of structure and relative prevalence of the grantmaking impetus and, relatedly, in terms of the way that foundations themselves see and define their own roles and functions in society. Albeit for different reasons, the understanding of what constitutes a “foundation” in both countries has in the past largely been driven by legal considerations. In Germany, much of the postwar foundation debate focused on issues of legal form, differences between public and private law on the structure of foundations, etc. The umbrella of legal discourse accommodated both the grantmaking and operating parts of the foundation community without forcing a deeper discussion about differences between the two in respect to foundations’ broader social functions and societal impact. Up until the 1990s, foundations in Germany enjoyed a certain level of societal irrelevance, as I have argued more extensively elsewhere. Only the growing policy interest in philanthropy and civil society of that decade brought about greater interest (Toepler 1998).

In the United States, legal regulation also played a major role in the postwar development of foundations but in an almost reversed fashion. The wealth of foundations—and the presumed power that came with it—caused unease from the beginning and stoked occasional political investigations through much of the twentieth Century. The ability of foundations to influence policy making through their grantmaking ability was at the core of the concern. Whereas German foundations experienced a more or less benign neglect, US foundations were treated to a level of political scrutiny that seemed out of proportion to the actual resources and political leverage the foundation community could control. With the Tax Reform Act of 1969, tax law eventually was used to reign in foundations that were feared to be too influential (Edie 1987; Simon 1995).

Such political scrutiny forced US foundations early on to seek a positive definition of their societal role. Accordingly, the idea of grantmaking foundations serving as society’s venture capital in a social innovation capacity gained traction already in the first half of the twentieth Century, but was further amplified by the damaging regulations introduced in 1969. The 1970s saw renewed efforts to define foundation roles and functions, particularly those of grantmaking foundations, but also in the context of the larger nonprofit sector. Various commissions as well as individual scholars—Waldemar Nielsen and his important analyses of foundations (1972) most prominently among them—framed the *raison d’être* of foundations heavily in terms of affecting innovation and positive social change, which were themes that German foundation scholars examining the American experience started to pick up in the 1970s and began to introduce into the German discourse.

However, while innovation is a theme that resonated with foundations as well, the different political context as well as the historical composition of the German foundation field prevented an easy one-on-one transfer of American conceptions of foundation roles. With many foundations geared towards operating a range of health, social, cultural, or educational institutions or limited by charter towards supporting a narrow range of purposes, a broad-based pursuit of innovation and change was not the most germane role for large parts of the German foundation sector. Indeed, German foundations continued to struggle with defining the boundaries to

the public sector, that is, how to complement, rather than simply substitute for, the state. As such, delineating proper functions and carving out a clear identity for foundations in Germany, or much of Europe for that matter, remains more complicated than a glancing view of the American situation might suggest.

The appealing beauty of the American view is that it allows drawing a clear circle around a set of institutions that are fundamentally alike in at least one respect, their nature as private grantmakers. This provides both a clear rationale in support of foundations (raising private funds for public purposes) as well as a rationale for regulating them (containing private influence over public policies). In the European context with its more complex and varied foundation traditions, the boundaries and rationales remain less clear. How foundations relate to the state, on the one hand, and how they relate to the rest of the nonprofit sector, on the other, remains an unsettled territory that continues to invite further investigation. In Germany, this debate is, of course, continuing.

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