

## “AS I’VE HEARD IT”

*A reaction to the Guild Inn Conference  
by one of the invited guests*

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John Hodgson suggested in that pleasant way he has that the task he had given me today would be very simple and that I would not have to prepare for it at all. The fact that I did not have to prepare was true and that part I liked. But as the discussion today revolved around many different poles I racked my brains as to how I was going to pull together in a few sentences the many diverse subjects I have heard discussed.

Someone has entitled my remarks “As I’ve heard it”. And each of us in this room, I am sure, heard the discussion in a completely different way so that any summary I may make will no doubt seem to them as if I have been attending a completely different session. As this thought occurred to me I was reminded of the three men on the train coming to London. They must have been a little hard of hearing. One said, “Is this Wembley?” The other said, “No, it’s Thursday,” and the third said, “Good idea, let’s get off and go to the pub.”

Well, what did we find out? First, we got some facts about Foundations. From Mr. Hodgson we learned that they took a lot of forms. Some were corporations, sometimes incorporated under a Companies Act, sometimes by a Special Act: some were federal, some provincial and others were not companies at all but trusts. But they were all called Foundations. Nobody seemed to be quite sure how many there were, but it was thought that there might be about twelve to fourteen hundred of them in Canada. It was stated that they had assets totalling approximately seven hundred million dollars. That seven hundred million figure had two impacts. Dr. Harry Ebbs was for translating it all forthwith from investments into human research in the field of medicine. My reaction was to apply a seven percent interest factor and that would provide fifty million dollars a year. I then thought, “Holy Smoke, that’s probably more than all the United Appeals raise!” However many there are, some are substantial. We should not, however, let figures of twelve to fourteen hundred deceive us because some of them are really shells in one form or another.

Then on top of that we found out that the Foundation has a second cousin, the trust, which may have been created by a wealthy philanthropist either during his lifetime or by his will with trustees who have authority to disburse the trust funds for charitable purposes. No one had any idea how

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many of these existed or the amounts administered under them. But from experience I am quite sure they must be substantial.

A second thing we learned is that these organizations are not separately classified for tax purposes. They are just one of a group of non-taxpaying organizations. Some have registered with the government so that they can give tax deductible receipts to those who make gifts to them. They have to file tax returns. But many who do not solicit funds from the public and need to give such receipts do not bother to register. In any case, the tax returns which are filed tell us nothing about these organizations. Prior to 1969 the situation was the same in the United States and it was found to have led to abuses which Congress took steps to rectify. The result was a tax imposed on the Foundations and a compulsory audit to see that they did not behave in a manner deemed by Congress to be contrary to the public interest. Their tax returns were made public.

Incidentally, there has been no suggestion today of any abuses by Foundations of their tax exempt status. This may indicate two things. One, that the Canadian Income Tax Act, and maybe the provincial Charities Accounting Acts, have done a lot to prevent the abuse of charitable funds which developed in the United States. And two, probably none of us in this room would hear about Foundations falling into that category even if there are some.

The role of all this is that we have no requirements in Canada with respect to disclosure. In consequence, those seeking to build up a directory of Canadian Foundations are busily sending out questionnaires to Foundations enquiring as to their charitable purposes and the extent of their charitable funds and, when they meet with a negative response, trying to find out from tax returns filed in the United States which Canadian Foundations hold United States investments. Now, most people in this room, certainly the grantees represented here, seem to assume that there should be disclosure by charitable corporations regarding these assets, income and how they spend their funds. But I suggest that it is not an open and shut case. It isn't any business of the public — or is it? Some of the corporations would say, "If what we are doing is within the law, what business is it of other people? Is it just idle curiosity?" Others might say, "If you are requiring us to make disclosure just because we are a tax exempt organization, what about every other tax exempt organization in Canada?" Should they be required to open up their books, too? Should the public be entitled to see the financial statements of churches and trade unions? But I think there is a feeling, probably quite general, that there should be some public accounting for large sums of money that are allowed to escape the net of the tax collector. We should have some form of assurance that they really do end up being used for charity.

We did not hear very much today about tax shelters and I don't think many foundations are being created these days solely for tax avoidance purposes. Certainly people are aware that they can put a dollar of tax-free

money to work rather than forty cents of tax-paid money by using a charitable Foundation. But the persons who gave large sums of money to Foundations are not trying to take money from you or me or the public at large. They are giving away their own money for good causes instead of giving sixty cents on the dollar to government and forty cents to their children.

The next question raised was about charitable Foundations existing in perpetuity. Dr. Ebbs had some ideas about making Foundations fast-disappearing. Dr. Northway suggested that there was a lot to be said for having a Foundation with its creator. I think there is something to be said for that. I think we would be more worried about this if we had a Ford Foundation with two billion dollars in Canada. One wonders what kind of hands it would fall into in two, three or four generations. Would it always be in the public interest to have that much capital appropriated for the particular objectives of the creator of that Foundation? Perhaps this is something we are going to hear more of in years to come. Maybe there should be some provision for phasing out a Foundation after, say, thirty years. I remind you that the Foundation which Plato set up only lasted 500 years and then people began to get worried that maybe it would last forever. And, if you really want a fine example of reaction to Foundations going on in perpetuity, consider the dissolution of the monasteries after the middle ages because too much capital had become tied up in one organization.

And what about this question of the percentage earned by charitable Foundations on their investments? Someone mentioned that in one case only four percent was earned. I think this ties into the problem of perpetuity. I have a great deal of sympathy with the donor who is faced with the alternative of getting a seven or eight percent interest rate or taking a lower rate on common stock in an inflationary period. I don't think we should assume that a Foundation is being badly run because it chooses to take a low rate of interest. I think there is a case against maximizing current income if you have an eye to the future.

One major topic of today's discussion was the granting practices of Foundations and on this we heard much from both sides. I have never asked for a grant myself but, after listening to the comments made, I have a picture of hordes of grantees anxiously scrounging around the different Foundations bugging for funds to support the projects dear to their hearts. And I see the grantees busily trying to "process" their applications and viewing with horror the mail piling up with demands from potential grantees.

I found it interesting that the granting pattern changes as Foundations mature. A phase one Foundation, it is said, is really just an extension of the donor. He is going to do his thing through his Foundation rather than through other charitable organizations. He is going to take a personal interest in it and in the activities it sponsors. It reflects his prejudices, his convictions, his dreams. But when he passes on, in all probability pro-

fessional management will be introduced to look after the Foundation's affairs. Maybe this is a good thing, but something is lost.

The question has been raised as to whether Foundations are innovative enough. Someone said that Foundations were not as innovative as governments and that this was a pity because maybe the proper role of private philanthropy is to sponsor the wild idea, the novel experiment, the oddball piece of research. And certainly our governments show surprising innovation in the way they disburse money to the public.

The issue of priorities in the allocation of charitable funds and how it came up would save time and effort on the part of both grantors and grantees if Foundations disclosed their special interests. Do they sponsor the arts, or medical research or are they primarily interested in the advancement of education? Do Foundations review their priorities from time to time to make sure they are meeting contemporary and not obsolete needs?

I am reminded of a Foundation established in Philadelphia in 1800. It was called the Magdeline Society and its aims were set out: "To ameliorate the distressed conditions of those unhappy females who have been seduced from the paths of virtue and are desirous of returning to a life of rectitude." After more than a century of patient attempt to keep going in the face of a chronic insufficiency of unhappy females desirous of rectitude and the frequent intractibility of those who did present themselves, the trustees decided that they must broaden the work of the Foundation if they were going to serve a useful function!

One message emerges clearly from today's Conference and that is how very important it is for Foundations and grantees from Foundations to become aware of and to understand each other's problems. If we have learned no other thing, the Conference has been worthwhile. But in fact we have learned many things and it is to be hoped that this Conference will just be the beginning of a new and exciting dialogue.