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Donor Beware: The New Realities of Philanthropy

Today's big-name philanthropists should worry about how history will judge their gifts (and their fortunes). The rest of us may wonder why we subsidize their giving

By

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Phil Knight, the founder and chairman of the athletic-gear company [Nike](#), is the 15th-richest person in the world and a philanthropist who specializes in “transformational gifts,” as they are called in charitable circles. Mr. Knight has given more than a half-billion dollars to Oregon Health Sciences University, which in recent decades has been spun off from the University of Oregon, his alma mater. OHSU now includes the Knight Cancer Institute and the Knight Cardiovascular Institute. He also

donated more than \$100 million to the Stanford Graduate School of Business, where he got his M.B.A. a half-century ago and where the Knight Management Center now sits at 655 Knight Way.

In February, Mr. Knight made perhaps his splashiest gift yet. He [put up \\$400 million](#) of a \$750 million endowment, meant to pay for young leaders from around the world to attend graduate school at Stanford. The so-called Knight-Hennessy scholarships—Mr. Knight shares billing with outgoing Stanford president John L. Hennessy—will be a 21st-century equivalent of the ones set up at the turn of the 20th by the African mining magnate Cecil Rhodes to bring student-athletes to Oxford.



And there's the rub. Anyone who has watched the fortunes of Rhodes's legacy in the past year can be forgiven for wondering whether these scholarships will provide Mr. Knight with a legacy as permanent as he intends.

Last year, students at the University of Cape Town in South Africa waged a successful campaign to remove a statue of Rhodes. They also rampaged through university buildings gathering "symbols of the colonizer"—mostly portraits from the period of white rule—and threw them on a bonfire. In recent months, students led by a South African Rhodes scholar have called for Oriel College, Oxford, to remove a statue of Rhodes, who studied there. They called him the "Hitler of southern Africa." In turn, Oriel alumni threatened to withdraw financial support for the college unless it rebuffed the protesters.



Nike founder Phil Knight looked on during the 2015 Basketball Hall of Fame Enshrinement Ceremony on Sept. 11, 2015, at the Naismith Basketball Hall of Fame in Springfield, Mass. *PHOTO: DAVID DOW/NBAE VIA GETTY IMAGES*

Universities and donors today must be alert to the possibility that the acts of philanthropy on which they collaborate might someday be denounced by the grandchildren of those they

aimed to help. There is no reason to assume that today's philanthropic largess will necessarily escape the fate of last century's.

When it comes to philanthropy, naming rights are often essential. They motivate donors, and they get fought over. In 1924, James Buchanan "Buck" Duke, the tobacco baron, left \$40 million to Trinity College in Durham, N.C., which used the occasion to change its name to his. A \$100 million gift from Hollywood producer David Geffen toward the rebuilding of Lincoln Center in New York was sufficient to bring about the [renaming of Avery Fisher Hall](#).

Sandy Weill, former Citigroup CEO, and his wife Joan have a foundation that has given more than \$600 million to Cornell Medical College, which is now named after them. But when a judge ruled last year that Paul Smith's College in the Adirondacks could not be renamed to include the name of Mrs. Weill, the couple withheld a \$20 million gift. (Apparently those who drew up the deeds for Paul Smith had better lawyers than either Avery Fisher or the Holy Trinity.)

There are exceptions to this preoccupation with naming rights. The hedge-fund manager [John Paulson](#) made a magnificent [\\$100 million donation](#) to the Central Park Conservancy for, among other things, restoring the woods at the Harlem end of the park, but nothing done with the money will bear Mr. Paulson's name. Chuck Feeney of Atlantic Philanthropies gave away the \$6 billion that he made on his duty-free shops, much of it in total anonymity.

But most donors want to see their name perpetuated in an institution. At Stanford, much of the Knight-Hennessy funds not donated by Mr. Knight will come from Robert King and his wife Dorothy (\$100 million for scholarships and the King Global Leadership Program) and management expert Steven Denning and his wife Roberta (\$50 million for Denning House, which will be home to the scholars themselves).

The defaced statue of British colonialist Cecil Rhodes was tied by straps to a crane on April 9, 2015, before its removal at the University of Cape Town. South Africa's oldest university voted to remove the monument from its campus after a month of student protests against a perceived symbol of historical white oppression. PHOTO: RODGER BOSCH/AGENCE FRANCE-PRESSE/GETTY IMAGES



The muckraker Gustavus Myers, whose “History of the Great American Fortunes” was a reference work for angry egalitarians for decades after it was first published in 1907, was fascinated by how common it was for “plutocratic nabobs,” after years of rolling in the dough, to start paying out. Their need, Myers believed, was to “give themselves a new character.”

Consider Alfred Nobel, the inventor of dynamite. In 1888, when his brother died, French newspapers confused the two, and Nobel received the dubious privilege of reading the headline on his own obituary: “The merchant of death is dead.” The episode may have spurred him to endow the prizes that today bear his name.

Myers insisted that the libraries endowed by Andrew Carnegie should not lead us to forget that his wealth had its source in “underpaid and overworked employees.”

Never, though, did Myers suggest that one of these institutions un-name itself on the grounds that its origins were tainted.

Today’s student radicals are different. They are sensitive to the slightest evidence of human failing or frailty in matters of race, just as 65 years ago people were sensitive to the slightest evidence of sympathy for communism. Princeton has been riven by demands that the university rename buildings and graduate schools that honor Woodrow Wilson, on the argument that, while president, he advanced segregation in Washington, D.C.

Harvard Law School is poised to change its shield, pending final approval, to expunge the memory of Isaac Royall, the school's 18th-century founder, who owned slaves. A sign that the agitation had turned into hysteria came over the winter when Harvard announced—in a move reminiscent of the Cincinnati Reds changing their name to “Redlegs” at the height of the McCarthy era—that the faculty member presiding over each of its residential houses would no longer be called a “master” but rather an anodyne “faculty dean.”



John Hennessy, the outgoing president of Stanford University, speaks during the the grand opening of the Knight Management Center at Stanford Graduate School of Business in Palo Alto in 2011. *PHOTO: TONY AVELAR/BLOOMBERG NEWS*

No one would suggest that Mr. Knight and the other Stanford donors have violated any of the tenets of today's public morality regarding race. And perhaps names that thank a benefactor should be considered in a different light than names that honor a political actor.

The point, though, is that political agitation can be fickle and faddish. Isaac Royall, Cecil Rhodes and Woodrow Wilson were not considered beyond the pale in their own day. Decades from now, some other ideological enthusiasm will descend, and some of our own most heroic citizens, who will then be figures from history books, will face reappraisal and

possible repudiation. From our vantage point, there is no way to figure out which of today's failings will elicit the wrath of tomorrow's revisionists.

If the youth of the year 2066 want to fly into a rage against today's philanthropists, they will not lack for reasons. Every great fortune rests under the suspicion that it is ill-gotten. There is no permanent set of rules that governs "normal" business practice. To the extent that there are such rules, the founders of today's fortunes tend to boast about breaking them.

Monopoly was one of the great evils of the industrial age. It is not a failing that Mr. Knight and the other Stanford donors can be accused of, but it might be raised someday against the charitable enterprises of [Bill Gates](#) and Mark Zuckerberg, whose fortunes are based on network efficiencies and whose businesses can thus be considered (after a point) natural monopolies. As the Yale law professor David Grewal showed in his masterly book "Network Power," as long as everyone is using Microsoft Word, you would have to be an idiot to use an incompatible product, even if another came out that worked much better and sold for much less.

Nike was long accused of using free trade to cut labor costs. The Asian factories with which it contracted became the symbol of a "race to the bottom," in both wages and working conditions. Harper's magazine ran a graphic exposé in 1992 showing the paycheck of one of Nike's Indonesian workers, who, it alleged, was making \$37.46 a month. Golfer [Tiger Woods](#), the company's best-known celebrity endorser, found himself questioned about Nike's labor conditions by reporters at the 1997 British Open. The company has since adjusted workers' salaries and started community development and micro-credit programs in an effort to improve its practices and recover its reputation.

Still, this election season indicates that we might be entering a more protectionist and egalitarian age. If we are, Nike's early years will not go unremembered.

Big philanthropy tends not to be egalitarian. It is often, in fact, explicitly elitist. Andrew Carnegie, whose gifts form the bedrock of the nation's public-library system, believed that "wealth, passing through the hands of the few, can be made a much more potent force for the elevation of our race than if it had been distributed in small sums to the people themselves." For Carnegie, the best gifts were not only from elites but for elites. "The 37,000 frequenters of the Pratt Library," he wrote, "are of more value to Baltimore, to the State, and to the country than all the inert, lazy, and hopelessly-poor in the whole nation."

This philosophy now goes under the name of “leadership,” and it is a philosophy to which Stanford’s donors subscribe heartily. Mr. Knight [told the Stanford Report](#) that “John [Hennessy] and I dream of a future 20, 30 or 50 years from now, when thousands of graduates—who can think outside the box as skilled problem-solvers—will be working together for a more peaceful, habitable world.” But does building a leadership class help the world or does it help the leadership class?

That depends on what those leaders do. At the height of President Lyndon Johnson’s Great Society, the political scientist and future senator Daniel Patrick Moynihan called foundations “a new level of American government.” They underwrite experiments in “governance” that, over time, turn into government-with-a-capital-G. Philanthropy is thus a means by which elites can control the rules that govern the replication of elites.

In an age of widening inequality, this can lead to distrust. The double favoring of philanthropists in the federal tax code—tax preference for gifts and tax-free growth for endowments—means that the philanthropists set policy priorities that other taxpayers subsidize.

The \$400 million in assets that Mr. Knight has dedicated to Stanford’s new scholarships will pass into a project wholly of his own choosing. Had he left the money to a family member in his will, the federal government would tap about 40% of it, or \$160 million, and a state government might also take its share—which these public authorities would then invest, following priorities established in a more democratic fashion. Had Mr. Knight sold his stock, the government would get 20% of the appreciation in the form of capital-gains taxes.

People differ on what the proper tax rates are for all of these things. But it is clear that, when the rich divert their assets to tax-free purposes, however laudable those purposes may be, it is other, nonrich taxpayers who must pick up the budgetary slack. When there is a trend toward inequality, you cannot expect the middle class to like that.

The Knight-Hennessy scholarships are especially open to such criticism because students of all nations are eligible for them. During the Vietnam War, the left-wing populist Rep. Wright Patman of Texas urged Congress to abolish deductibility in the IRS code for gifts made abroad. Asking the public to underwrite the domestic whims of civic-minded elites is one thing, Patman reasoned. Asking them to underwrite the transfer of resources abroad is another thing altogether.

Such views may return in today's ideological climate, with growing populist movements on the left and the right. We may be nearing the end of the era when megadonations like Phil Knight's are fairly commonplace. Time will tell whether we are looking at the dawn of a new egalitarian age, or just looking a gift horse in the mouth.

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