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Foundations need to spend more

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We have been witnessing a growing "charity gap" in Canada for many years. The demand for charitable services has grown beyond charities' ability to answer them. So, why are we allowing foundations to hoard taxpayer-supported dollars? Foundations' role is to help provide social services. Not spending their money doesn't get that done.

Foundations draw on the public purse when donors claim tax credits for their donations, so taxpayers have a right to demand fair and accountable use of their money. Over the past 10 years, foundations as a group have more than doubled their assets — to well over $80 billion, with an average rate of growth of 12 per cent a year. At the same time, foundations have reduced their granting from 10 per cent of their assets in 2011 to less than eight per cent in 2017. Although some foundations are very generous, many others are granting at or near the minimum requirement of 3.5 per cent of assets despite having earned significant returns in the financial markets over the past several years.

Letting foundation assets pile up in this way is simply bad policy. There is no shortage of problems in Canada that need addressing by agents other than governments. Foundations should be helping fix these problems by distributing more of the wealth they have accumulated.

Foundations justify their conservative spending patterns by arguing that they need big endowments to afford charitable support in the future. But delayed good adds up to less good. And a higher distribution quota (DQ) would not put foundations out of business. If they were required to distribute 10 per cent of their assets annually, then, based on the average performance of financial markets over the past 20 years, their capital would last 25 or more years (based on a return of six to seven per cent on their investment portfolio).

For most founders of foundations — child prodigies excepted — a quarter century is more than enough time to allow strategic thinking and long-term granting that spends all taxpayer-provided money during the founder's lifetime. Nor, of course, does anything stop foundations from doing their own fundraising or philanthropists from adding more money to their favourite foundations' coffers — with tax receipts naturally following. There will also be new philanthropists in the generations to come. The rapid growth of new foundations and new "donor-advised funds" confirms that. The future of charitable work in Canada does not depend on current foundations hoarding money. We need them to return to granting at the rates they did 10 years ago to help Canadians who are struggling today.

The good news is that a higher distribution quota is both good policy and good politics. And it should be an easy win. The non-profit sector represents eight per cent of GDP, employs two million voters, and engages millions more as volunteers. There is widespread support for it. Plus, raising the DQ would have zero impact on the public purse: the money is already sitting there and donors have already received their tax credits. This is easy politics that will help millions of Canadians in need at a time when that need is especially great.

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