

Putting sand in the oyster

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Introduction

The very word “philanthropy” comes from two Greek words meaning to “love humanity”. So it seems a little churlish to ask difficult questions about it.

Nevertheless, all pearls begin as an irritating grain of sand in an oyster. Please rest assured that I’m going to try to get to the pearls, even if there might be irritation along the way.

Philanthropy – as the word implies – aims to make the world better.

But nearly all of us say we want to leave the world better than we found it. Not-for-profit organisations and governments, in particular, start with the aim of acting in the public interest. My talk today aims to think through how philanthropy can make a distinctive contribution to a better world.

I have three propositions. First, making the world better is harder than it looks. Second, the breadth of both modern government and not-for-profit organisations leaves relatively little room for philanthropy to improve the world. And third, philanthropy will have the most impact when it takes on the causes that governments are reluctant to tackle. One cause that government is particularly reluctant to tackle is change in government itself.

Making the world better is harder than it looks.

Good intentions are not enough – indeed, the road to hell is paved with them.

Sometimes the cure is worse than the disease. Governments in Australia built tower blocks for community housing, and destroyed communities as a result. Food-handling laws aiming to cut down food poisoning also cut down school traditions where the sausages at the athletics carnival may have been ordinary, but the conversations while they were cooked built communities. While professing the best of intentions, governments and not-for-profit organisations took indigenous children away from their families, with the awful results that we now recognise as the Stolen Generations.

Large sums of money are not enough either. Australian governments have spent prodigious sums on improving the lives of Aborigines and Torres Strait Islanders. And yet, their lot remains, overall, a long way behind other Australians. The Bill and Melinda Gates Foundation spent several years and a lot of money promoting the creation of small schools. In retrospect, even the Foundation recognises that this is not a particularly important lever for improving schools.¹

Even with the right aims, and enough resources, things can go badly wrong. Implementation is hard. Insulating more Australian homes both saved energy and maintained jobs in a financial crisis. But the loss of human lives in the process was too high a price.

In short, good intentions often miss their mark.²

Nevertheless, it is possible to make the world better

Australia today is built on the efforts of governments, not-for-profits and philanthropy to make our lives better than those of previous generations. We benefit from their successes in building political, educational, and cultural institutions, physical infrastructure, and welfare systems.

¹ Bloomberg Businessweek (2010)

² For anyone that wants to learn from the mistakes of others rather than making their own, I recommend *The Blunders of our Governments*, King and Crewe (2013)

Just 200 years ago, the typical person in the world's most developed country ate few fresh vegetables and even less meat, never travelled more than 20 miles from their birthplace, could not read, and even if they could, would need to spend most of a day working to pay for a candle to read for an hour at night.³

The world has improved dramatically since then, and philanthropy helped to make it happen. The Wellcome Trust continues to fund a prodigious quantity of medical research. Australia is filled with public buildings whose names attest to the generosity of those who gave to build them. We have any number of schools that were created through the generosity of individuals and families.

Modern government and not-for-profits leave relatively little space for philanthropy today

The resources of philanthropy may seem substantial to those who have nothing, but they are small relative to the budgets of governments and not-for-profits. Australian governments spend a little over \$500 billion every year.⁴ More than half of this is spent on welfare, health and education, and a further 6 per cent on community, disability and aged care services.⁵ Not-for-profit organisations turn over about \$100 billion a year, including about \$20 billion worth of volunteer time.⁶ Giving provides about 10% of their resources - \$10 billion a year⁷ – although Australians only claim about \$2 billion a year in tax deductible gifts.⁸ Trusts and foundations are smaller again. They provide a little under \$400m a year,⁹ about half from private ancillary funds,¹⁰ much of which is given to not for profits. Strategic philanthropy is smaller still.¹¹

To sum up: Australian governments each year spend about two thousand times more than strategic philanthropy on making the world better.

Not only is government very large relative to philanthropy, it has significant advantages, not least the ability to control behaviour through legislation and the force of civil and criminal law.

Not surprisingly, there can be real problems when philanthropy intervenes in areas where government already provides substantial support. Take higher education, for example. Scholarships to encourage talented students to study undergraduate degrees seem like a worthy cause.¹² But are they really necessary? Students with the will and ability to reach for higher education almost always do so. As my Grattan Institute colleague Andrew Norton has shown, students of a given level of school academic achievement undertake higher education at the same rate, irrespective of their family's income.¹³ It is very likely that students who benefit from a scholarship scheme will ultimately be substantially better off as a result of higher education, and in a position to pay back its cost – which is the precise point of the government FEE-HELP scheme.¹⁴ Thus the primary impact of undergraduate scholarships funded by philanthropy is to shuffle students between universities. It won't change the number of graduates.

³ Ridley (2010)

⁴ Daley et al (2013), p.58.

⁵ Daley et al (2013), p.56 to 58.

⁶ Productivity Commission (2010) p.64 with figures for 2007, inflated at nominal GDP.

⁷ Australian Bureau of Statistics (2009a), Table 2, with figures for 2007, inflated at nominal GDP.

⁸ McLeod (2013)

⁹ Australian Bureau of Statistics (2009a), Table 2, with figures for 2007, inflated at nominal GDP.

¹⁰ Anderson (2013) p.9

¹¹ Two thirds of Philanthropy Australia's members distribute less than \$500,000 a year: Philanthropy Australia (2013). A survey of 12 of Australia's largest foundations shows that they spent a third of their money in grants of less than \$100,000: author's analysis of Anderson (2013) p.18, p.21

¹² See Macdonald (2013) account of Tuckwell's \$50m donation to ANU and Gilmore (2014) account of the \$100m Westpac scholarship program

¹³ Norton (2012) p.13

¹⁴ Norton (2012) p.11

Of course, large-scale philanthropy should be applauded. But as the higher education example illustrates, it is not always straightforward to provide philanthropy that adds much to what government does anyway. Given their relative size, philanthropy will only make a substantial difference if government is very foolish, or philanthropy is very clever.

The big opportunities for strategic philanthropy are where government struggles.

Although government does many things well, there are some things that government tends to do badly.

Philanthropy can be better than government at identifying local problems. Government is inherently a large lumbering beast. Philanthropy is inherently connected to a local community. It may be quicker to grasp both the local problem and the local solution. Some of the distinctive interventions on the Cape York Peninsular are good examples.

Philanthropy can also make a big difference helping groups that are weak and unpopular. There are few votes in helping them. Philanthropy can act where governments refuse to do so. For example, many asylum seekers living in the Australian community rely on philanthropy to avoid destitution.

Some other causes are seen as 'luxuries', and therefore inappropriate for government funding – or too much funding. Yet so-called luxuries such as art and culture improve the lives of many people. Guilfoyle's Volcano at the Melbourne Botanic Gardens might have seemed a folly on paper for governments, but my guess is that it will turn heads for generations.

Philanthropy also has more opportunities to experiment. Government is always under pressure to provide universal services. It is difficult for government to explain why an apparently attractive new program is being provided to some people but not to others. Philanthropy can be selective, and find out if the program really works. Philanthropy largely funded the Journey to Social Inclusion, the Sacred Heart Mission's project with long-term homeless. The program investigated interventions that were truly new to the world in their design – and some were very effective.¹⁵ Too often, however, these pilots are never scaled up even when they are successful. Given its relative small size, philanthropy usually lacks the resources for full-scale implementation. Governments are reluctant to change, and often philanthropy under-estimates the resources needed to change government policy.

Apart from local, unpopular, luxury, or experimental causes, philanthropy can also influence what government itself does. However, changing government policy is always hard. Change that is easy has usually happened already. Politicians are seldom keen on leading difficult decisions.

The remainder of this talk focuses on this last form of philanthropy because I'm more familiar with it through the work of my organisation, the Grattan Institute.

Changing government policy is like putting sand into an oyster

If philanthropy agitates for change in government policy, it will usually be seen as an irritant – like the sand in an oyster. Is this kind of irritation really necessary? What can philanthropy add that the oyster of public policy won't produce by itself?

Institutions – organised groups of people – tend to act to maximise the power, influence and resources of the institution. As a result, policy outcomes often favour the interests of the small and powerful over the interests of the weak and dispersed. For example, car industry subsidies favour the interests of car companies and workers. Individual companies and workers each gain a lot from these subsidies. The costs are borne by taxpayers, but each individual taxpayer loses relatively little.¹⁶

¹⁵ Johnson et al (2012)

¹⁶ For an excellent summary of this 'public choice' theory, see Lopez and Leighton (2012), Chapter 3

Independent bodies are needed to represent a dispersed public interest in the face of powerful vested interest. For example, pharmaceutical companies have benefited from the Commonwealth Government paying several *times* more than other countries for many drugs, particularly those where the patent has expired. A small number of companies and pharmacies benefited a lot, while the losers were taxpayers dispersed across the community. It required several months of analysis by an independent institution like Grattan Institute to work this out.¹⁷ We hope that this will be one of the first cost savings identified by the Commission of Audit.

Existing powerful institutions tend to try to prevent this kind of disruptive, productive sand getting in.

Few people get the chance to put sand into the oyster

There are relatively few institutions today that have a knife to lever the oyster open and let the sand in.

Today's media have decreasing resources for in-depth investigations that unearth the public interest when lobby groups are looking after their own interests.

Politicians are increasingly driven by immediate public reactions. Acutely aware of the most recent poll on their re-election chances, they are increasingly reluctant to stand up for the diffuse public interest against the concentrated power of interest groups.

Government bureaucracies are invariably reluctant to advocate new ideas in public. Public servants are rarely popular with their ministers if they advocate changes that have not already been accepted politically.

Academics are also increasingly constrained. Two former Secretaries to Prime Minister and Cabinet, Peter Shergold and Terry Moran, have both expressed concern about low academic engagement with policy issues.¹⁸ Often academic work translates poorly to the policy world, relationships are thin, and the work is not timely. Academic promotion, department funding, and university funding are all heavily influenced by output in refereed journals. As a result, academics focus on them rather than public debate. Those academics that are interested in directly applied analysis often take on public sector consultancies. Knowing they will be applying for a government contract tomorrow inevitably constrains their enthusiasm for making life difficult for government today.

Non-government organisations are also increasingly reluctant to raise difficult ideas. Governments now provide half the total revenue of not-for-profit organisations,¹⁹ reflecting the out-sourcing of services from drug and alcohol rehabilitation to social housing. Organisations that provide these services require enormous fortitude to criticise government policy when their survival depends on winning the next government contract.

So media, politicians, public servants, academics and non-government organisations are all reluctant to push for change in government. But this creates opportunities for strategic philanthropy to work on improving policy in the public interest. Inherently strategic philanthropy doesn't have to worry so much about the politics or the money.

However, oysters don't like sand much

Although one can make the world better by agitating for change to what government does, it's not for the faint-hearted. Every field of policy has its vested interests that are loud in their defence and subtle in providing at least superficially plausible explanations of why the public interest lies in directions that just happen to be aligned with their self-interest. Pharmaceutical companies, nurses, universities, seniors, teacher unions, and protected industries like aluminium have all said rude things in public about Grattan Institute work.

¹⁷ Duckett et al (2013)

¹⁸ Shergold (2011); Moran (2011)

¹⁹ Australian Bureau of Statistics (2009a), Table 2

Similarly, politicians, particularly ministers, are rarely grateful at the time for work that questions current government policy.

Even funders can find it uncomfortable. Think tanks are effective precisely because they seed the debate with fresh ideas and facts. But if they put real effort into analysis, sometimes they come up with results contrary to both accepted wisdom and the beliefs of their funders. They are “think tanks”, not “belief tanks”. It takes a courageous philanthropist to fund work that might contradict their beliefs about the world. One can instead fund organisations focused on advocacy for defined outcomes that provide few surprises. But lobby groups are a dime a dozen and generally have less impact.

Getting sand into the oyster is not easy

In the long run, public opinion and government action can be substantially influenced by high quality analysis well communicated. However, we live in a world awash within opinion, but short of analysis. There are relatively few people and institutions that have the skills to analyse the data and then fashion the results into a coherent case for change. Even fewer institutions build the ongoing relationships with public servants, politicians and media that often underlie effective advocacy for change. And many institutions don't have the longevity to plug away at issues for the several years that are often required for people to change their minds about big issues.

Consequently, seeding pearls isn't cheap. Think tank work is not cheap, nor is it fast. Each of the six Grattan programs costs about \$750,000 per year, and in my experience a program needs that size to have significant ongoing impact. Policy change inherently tends to take at least 3 years or longer: the introduction of a GST took 25 years from the Asprey Report in 1975 to Howard's legislation in 2000.²⁰ Given the limited resources of philanthropy, many foundations will only be able to contribute to part of a project – but the independence of this funding from government makes it particularly valuable.

All these factors also go some way to explaining why pilots funded by philanthropy are seldom scaled up. Designing and running a successful pilot is the easy part. Getting government to change is difficult.

Oysters do produce pearls

The good news is that good ideas backed by good analysis can turn into pearls that make the world better. Over time, a think tank can make it easier for politicians to make good decisions. Change the hearts and minds of the public, and our leaders generally follow quickly.

The highest profile example in recent times is the development of policy responses to climate change. Think tanks have been instrumental in persuading reluctant governments to act in the face of powerful interest groups. And, ironically, other think tanks have been instrumental in the movement to roll back those changes.

There are many other examples. I believe that Grattan Institute's work has made a difference to current debates about budget reform, retirement ages, and pension eligibility – debates that will ultimately make the country more secure for the elderly and better for our children. Grattan's work on cities has led to governments engaging residents better in planning tradeoffs between development and protection of their amenity and environment. Our work on school education accelerated the introduction of better teacher performance feedback and appraisal, and of student progress indicators on the My School website. Our health work influenced the introduction in Queensland of physician assistants who will improve rural access to healthcare. Some of our most valuable work has encouraged governments *not* to do things – for example, not to waste money on reducing school class sizes, not to reserve gas for Australian use, and not to roll back the demand driven system in higher education.

I'm naturally more familiar with the work of my own organisation. Other think tanks will point to pearls of their own.

²⁰ Compare with the tendency towards Foundation Attention Deficit Disorder, or FADD, described in Orosz (2012)

Thus one way to make the world better is philanthropic funding for think tanks. Success requires a thick hide, financial independence from government, and substantial ongoing funding.

Conclusion

We hear a lot about “strategic philanthropy” that aims to change the big picture rather than just dealing with the immediate problem.

I’ve suggested three things that strategic philanthropy should bear in mind. First, changing the big picture is harder than it looks. Good intentions are not enough. Second, given the size of government and not-for-profit organisations, the interventions of strategic philanthropy need to be very strategic if they are really going to add much to what is already happening. Third, philanthropy needs to focus on the things that government doesn’t do. One of the things that government is particularly reluctant to tackle is change in what government does. Getting to better policy is not always easy given the realities of politics. But philanthropy can have a significant role in seeding the oyster to improve policy. And in the long run, that is a powerful way to make a better world.

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