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# Warren Buffett: A Wealthy Philanthropist with Some Bad Ideas

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Warren Buffett: A Wealthy Philanthropist with Some Bad Ideas

By Martin Morse Wooster (*Foundation Watch*, November 2011, PDF [here](#))

In August, Warren Buffett, America's second-richest man with \$39 billion in assets, complained in the op-ed pages of the New York Times that his taxes were too low. "Last year my federal tax bill—the income tax I paid, as well as payroll taxes paid by me and on my behalf—was \$6,938,794," the CEO of Berkshire Hathaway wrote. "That sounds like a lot of money. But what I paid was only 17.4 percent of my taxable income—and that's actually a lower percentage than was paid by any of the other 20 people in my office. Their tax burdens ranged from 33 percent to 41 percent and averaged 36 percent."

Buffett demanded that Congress raise taxes on America's millionaires and impose an

additional surtax on those who make more than \$10 million. “My friends and I have been coddled long enough by a billionaire-friendly Congress,” Buffett contended. “It’s time for our government to get serious about shared sacrifice.”

President Obama and Buffett, an ardent liberal Democrat, have known each other for some time. Buffett served on the presidential transition team for economic policy, and in 2010 the president gave him the Presidential Medal of Freedom, the nation’s highest civilian honor.

Buffett’s grandson, Howard W. Buffett, spent a year and a half in the Obama administration as a staffer in the White House Office of Social Innovation and Civic Participation. He then worked for the Department of Defense promoting agricultural development in Iraq and Afghanistan.

In September, President Obama called for a tax on the rich and super-rich that his friend from Omaha had proposed. He dubbed the tax increase the “Buffett rule,” which is perhaps the first time in history that a tax increase has been named after a billionaire.

Buffett’s remarks provoked considerable controversy. Many observers noted that Buffett chose to keep his tax returns private, leaving it impossible to verify his claim of a low tax rate. “The opportunity to educate the public would be even greater if Mr. Buffett would let everyone else in on his secrets of tax avoidance by releasing his tax returns,” the Wall Street Journal recently editorialized.

Nor did the rich appreciate the advice Obama was given. “I deeply resent that President Obama has decided that I don’t need all the money I’ve not paid in taxes over the years, or that I should leave less for my children and grandchildren and give more to him to spend as he sees fit,” said Harvey Golub, former CEO of American Express and former chairman of American International Group. “I also resent that Warren Buffett and others who have created massive wealth for themselves think I’m ‘coddled’ because they believe they should pay more in taxes.”

Many commentators note that one reason why Buffett’s taxes are so low is that, as chairman of Berkshire Hathaway, he is paid only \$100,000 a year. His wealth comes from Berkshire Hathaway capital gains rather than salary, which may explain why his tax rate is lower than it would be had his primary source of wealth been his paycheck.

Still others think it’s hypocritical that Buffett demands that his taxes be raised at the same time that Berkshire Hathaway subsidiaries reaped billions from the 2008 bank bailout and the 2009 stimulus. An article in the February Vanity Fair calculates that Berkshire Hathaway had \$26 billion invested in companies that received \$133 billion in government stimulus subsidies. Even Alice Schroeder, Buffett’s biographer, noted in a Washington Post commentary that the massive government subsidies given to banks ensured that “Berkshire

Hathaway benefited handsomely from the bailouts of companies in which it invested, such as Goldman Sachs and Wells Fargo.”

Most of Buffett’s wealth will go to charity. In 2006 he announced that the bulk of his fortune is destined for the Bill and Melinda Gates Foundation. Every year since then, he has transferred Berkshire Hathaway shares worth about \$1.5 billion to the Gates Foundation. In addition, Buffett’s wealth was used to create four smaller foundations: the Susan Thompson Buffett Foundation, named after his late wife, and the Howard G. Buffett, NoVo, and Sherwood Foundations, each headed by one of Buffett’s three children. A smaller share of Buffett’s wealth endows the Sunshine Lady Foundation, headed by Buffett’s sister Doris. Buffett also helps charity in smaller ways. Each year Buffett auctions off a lunch with him that supports the Glide Foundation, the nonprofit of a San Francisco church that is so far to the left that it refuses to accept donations of used clothes, on the grounds that second-hand clothes demean the homeless. The winner of the lunch in 2010 and 2011 was hedge fund manager Ted Wechsler, who paid over \$5 million for two lunches. Wechsler was rewarded for his generosity in September by being named one of the three people who will manage Berkshire Hathaway’s investments whenever Buffett steps down as CEO. “Only at Berkshire Hathaway can you get a job by paying \$5 million for an interview,” Buffett biographer Alice Schroeder told the Financial Times.

And in July 2010, a five-pound replica of a red Dairy Queen spoon signed by Buffett sold for \$4,500 at an eBay auction benefiting the Children’s Miracle Network, which said it would use the proceeds to benefit Gillette Children’s Hospital in Minneapolis. Dairy Queen is a Berkshire Hathaway subsidiary.

This article on Warren Buffett and his charities updates “Warren Buffett’s Philanthropy: What About the Other \$6 Billion?” by Jonathon McClellan and Robert Huberty, published in Foundation Watch in October 2006.

The article includes new information about Buffett’s philosophy of giving, gleaned from Alice Schroeder’s biography of Buffett, *The Snowball*, and from other sources, and examines how Buffett, his sister, and his children are using their nonprofits.

### **Warren Buffett Becomes a Philanthropist**

Like many liberal donors, Warren Buffett came from a conservative family. Buffett’s first job at age 12 was when he helped clean his grandfather Ernest Buffett’s store. Ernest Buffett made sure to take two cents out of his grandson’s tiny paychecks, as a way of warning his heir of the bite Social Security would take out of his income.

Buffett’s father Howard was a four-term Republican congressman from Nebraska. In a 2003 profile in *The American Enterprise*, Bill Kauffman notes that Howard Buffett “compiled an almost purely libertarian record” in Congress, as “he opposed whatever New Deal alphabet-

soup agencies and Fair Deal bureaucracies emerged from the black lagoon of the Potomac.”

Howard Buffett was a staunch foe of foreign aid, and one story about him was that one night he passed the British Embassy with its lights on and grumbled, “They even stay up at night to think of ways to get our money.”

In an interview for a biography published in 2010, Warren Buffett’s sister Doris said that if her father were alive in 2009, he would have staunchly opposed the stimulus as fiercely as he opposed the New Deal. Howard Buffett, his daughter recalled, “was far more concerned about the rise of socialism than he was of communism. He thought we’d lost all our freedoms. He also said once that if it got to the point—some percentage—of people who got a check from the government, it was all over. The world has changed since he died in 1964. I’m afraid he’d be very saddened if he could witness it now.”

Warren Buffett became a liberal Democrat, although he did not formally switch parties until after his father’s death in 1964. As his wealth and influence grew, he began to interact with some of America’s most important philanthropic leaders.

In a 1967 Ford Foundation annual report, for example, Ford president McGeorge Bundy wrote that it was time for America’s colleges and universities to invest in more speculative enterprises, saying, “We have the preliminary impression that over the long run caution has cost our colleges and universities much more than imprudence or excessive risk-taking.”

Bundy decided to set an example by dramatically boosting Ford’s giving and having his investment managers divert Ford’s portfolio into risky enterprises.

A few months later Buffett responded to Bundy, telling his investors, “I will not abandon a previous approach whose logic I understand even though it means forgoing large, and apparently easy, profits to embrace an approach I don’t fully understand.”

Buffett was proved right while Bundy was wrong. Bundy’s speculative investment philosophy combined with increased grantmaking caused the Ford Foundation endowment to fall by a third. Buffett’s value investment strategy would make him a mega-billionaire.

In 1970, Buffett created a family foundation and began to teach himself about philanthropy law. Within a year Buffett used his knowledge to make inquiries into a beloved but decadent charity. A newspaper he owned received a Pulitzer Prize for reporting its findings.

In 1971, Buffett heard that Boys Town, the famous Omaha orphanage founded by Msgr. Edward Flanagan, was hoarding its assets, which were enormous and growing. Buffett took this tip to the Omaha Sun, a weekly newspaper he owned, and the newspaper’s editor assigned four reporters to investigate Boys Town. The charity refused to release its financial records. But Buffett knew something that his newspaper’s reporters did not: Beginning in 1970 the federal government required that nonprofits submit an annual financial statement to the Internal Revenue Service—IRS Form 990. Boys Town, just like the Buffett foundation,

would have filed this statement.

“I knew of an IRS regulation that required charitable foundations to disclose their assets for the first time,” Buffett told the Wall Street Journal in 1977, “so I told our editor to get a copy of the Boys Town filing.”

A reporter was sent to the IRS office in Philadelphia, where she received the Boys Town Form 990—92 pages, for which she paid a dollar a page. The report showed that in 1970 Boys Town had an endowment of \$191 million, which was projected to rise to \$209 million in 1971. As Omaha Sun editor Paul N. Williams noted in a 1975 article in the Columbia Journalism Review, Boys Town’s endowment was three times as large as Notre Dame’s. If Boys Town were a corporation, its income and assets would have placed it at No. 230 in the Fortune 500.

“I’d heard a lot of rumors during my fund days about Boys Town’s large stock holdings,” Buffett said in 1977, “but even I was staggered to find out that the home, which was constantly pleading poverty and caring for less than 700 kids, had assets of more than \$200 million.”

The Omaha Sun series appeared in January 1972. Shortly thereafter, the home’s head, Monsignor Nicholas Wegner, was forced to resign, and Boys Town suspended fundraising for three years. In 1973 the series won the Pulitzer for local investigative reporting.

When Buffett talked about his role in the Boys Town expose in 1977, he revealed for the first time that he had a foundation. One consequence was that newspaper publisher and philanthropist Walter Annenberg, a moderate conservative who had served as President Nixon’s Ambassador to Great Britain, contacted Buffett. Annenberg invited Buffett to his Palm Springs mansion and decided that he would teach Buffett how to be an effective donor.

“Annenberg had made a close study of failed foundations and the perfidy of foundation trustees,” notes Buffett biographer Alice Schroeder. “He sent Buffett examples of foundations gone wrong after their benefactors had died ... Annenberg conveyed to him the dread of an imperial administrator for his money, one who would conduct what he referred to as ‘foundation rapings’ when he was gone.”

In one letter, Annenberg referred to McGeorge Bundy as a horrible example of the sort of person who headed a foundation after the donor died. Annenberg said that Henry Ford II had told him that Bundy was “the most arrogant son of a bitch in the country, who developed the lifestyle of an Arabian prince on Ford Foundation money.”

(It should be noted that Annenberg failed spectacularly to benefit from his own ideas. After his death and despite his intentions, the Annenberg Foundation survives as a liberal foundation that constantly betrays its founder’s wishes.)

Buffett largely ignored Annenberg’s advice. He studied the great philanthropists. Alice

Schroeder says that among the donors Buffett admires is John D. Rockefeller, for his giving to black colleges, and Abraham Flexner, a Rockefeller Foundation program officer who believed foundations can reorganize social institutions to produce results they desire.

According to Alice Schroeder, Buffett “read Flexner’s autobiography three or four times and gave copies to friends.” (I discuss Abraham Flexner in the first chapter of my book *Great Philanthropic Mistakes*.)

The philanthropist with the greatest influence on Buffett was Andrew Carnegie. While rejecting Carnegie’s free-market ideas, Buffett fervently adopted Carnegie’s belief that wealth in estates should be taxed rather than be passed along from one generation to the next.

In 2005 Buffett, along with Bill Gates Sr. and George Soros, furiously lobbied—but failed—to have Congress raise the estate tax.

Buffett first expressed his ideas on philanthropy in a 1980 op-ed in the *Omaha World-Herald* on the death of his friend Peter Kiewit. A construction magnate, Kiewit left most of his fortune to charity. “Peter Kiewit was overwhelmingly a producer, not a consumer,” Buffett wrote. “One who spends less than he earns is accumulating ‘claim checks’ for future use.

At some later date he may reverse the procedure and consume more than he earns by cashing some of the accumulated claim checks. Or he may pass them on to others—either during his lifetime by gifts, or upon his death by bequest.”

In this 1980 article, Buffett denounced William Randolph Hearst for spending most of his wealth on constructing his mansion San Simeon. “Just as the Pharaohs did when building pyramids, Hearst commanded massive amounts of labor and material away from other societal purposes to satisfy his personal consumption desires.” (Buffett ignored the pleasure millions of visitors get exploring Hearst’s gigantic mansion on the central California coast.) Buffett was also displeased by rich people who choose to leave their fortunes to their heirs.

Those who live on an inheritance, Buffett contended, “might feel themselves perceptive in observing the debilitating effects of food stamps for the poor but would fail to observe that they themselves are the beneficiaries of an almost boundless lifetime supply of privately-funded food stamps bestowed upon them at birth.”

In at least one case, Buffett’s belief that unearned wealth promotes dependency led him to reject a proponent of government entitlements. Buffett was close to Senator George McGovern, the Democratic candidate for president in 1972. But when McGovern endorsed giving every American a \$1,000 government check, biographer Roger Lowenstein notes, Buffett crossed party lines and voted for Richard Nixon.

Buffett spent most of the 1970s and 1980s looking for what Lowenstein calls “the Coca-Cola of charities.” Just as Buffett looked for reliable profitmaking businesses in which to invest, he searched for steady and productive charities. Buffett became famous for rejecting charity

appeals. Lowenstein notes that although Buffett was a diehard University of Nebraska football fan, he refused to meet with University of Nebraska fundraisers.

When National Public Radio announced that its show “Weekend Edition” would go off the air unless it could raise \$50,000, Buffett was asked to contribute. He refused. Over 20 years later, the show remains a staple of NPR’s Saturday broadcasts.

Buffett’s friend Ann Landers, the advice columnist, constantly nudged Buffett to become a big giver. Buffett was “piling and heaping and heaping and piling,” she complained. “So what is this all about?”

For years the Buffett Foundation remained relatively small and focused its grant-making on just two causes: population control and preventing nuclear war. In a 1988 interview with the Omaha World-Herald, Susan Buffett said her husband was attracted to giving for population control because he liked seeing statistics on falling national birth rates. “Warren likes numbers,” his wife said, “He likes to see concrete results, and you can see them (the numbers) change.”

Until 2002, the philanthropy of the Buffett Foundation was dwarfed by the corporate philanthropy of Berkshire Hathaway. Berkshire Hathaway had an innovative giving program that allowed its shareholders to designate \$19 per share to the charity of their choice.

Because Buffett owned so many shares of Berkshire Hathaway much of its corporate philanthropy went to pro-choice and population control groups. This ended when pro-life activists targeted a Berkshire Hathaway subsidiary called The Pampered Chef, a kitchen products company whose largely female workforce made door-to-door sales calls. After Pampered Chef saleswomen found themselves compelled to defend why their parent company supported abortion, Buffett personally killed Berkshire Hathaway’s corporate giving program.

Most observers predicted that the Buffett Foundation would receive an enormous fortune upon Warren Buffett’s death. (It was renamed the Susan Thompson Buffett Foundation in 2004 after Buffett’s first wife died.) However, in 2006 Buffett announced that most of his then-estimated \$44 billion in wealth would be given instead to the Bill and Melinda Gates Foundation in gradually increasing installments. Three foundations Buffett created for each of his children would receive \$1 billion endowments.

Buffett defended his decision in a recent interview with the Indianapolis Star. “In philanthropy, I operate much like I operate at Berkshire Hathaway. I believe in finding people who are much better than I am at running things and then just handing them the keys to the place. If I could get Albert Pujols to bat for me in a baseball game, believe me, I would not step up to the plate myself. My job is to recognize talent and empower talent and then get out of the way. Whether in business or philanthropy, I follow exactly that policy.”

Buffett's only other recent comment on philanthropic practice came in 2007, when he told the Senate Finance Committee that it was "astounding" that 27 of the 30 largest foundations in the U.S. paid out exactly five percent of their assets each year. "If you set it (the payout rate) at 3 percent, most of them would spend 3 percent," said Buffett, who nonetheless did not call for changing the payout rate.

Buffett joined Bill and Melinda Gates as the third member of the board of trustees of the Gates Foundation (2009 assets \$34 billion). But as far as can be determined, the Gates Foundation's policies and priorities have not changed as a result of either Buffett or his annual \$1.5 billion gift. The only known change is that every year Bill Gates writes a letter to the public detailing what has happened at the foundation. This letter, Gates said on "The Charlie Rose Show" in February, is comparable to the annual letter Buffett sends to Berkshire Hathaway shareholders. "I sort of think of Warren as the target reader," Gates said, "somebody who cares a lot but wouldn't have been there to see which grants had problems and wants to understand my thinking about how we're choosing different things."

What follows are updates on the five foundations created with Berkshire Hathaway wealth.

### **Sunshine Lady Foundation**

Like her younger brother, Doris Buffett moved to the left as she grew older, although she stayed conservative longer; in the early 1960s, she was a generous contributor to Fred Schwartz's Christian Anti-Communism Crusade. In 1996, she started the Sunshine Lady Foundation to practice traditional charity ignored by other members of her family.

"I'm wholesale, she's retail," Warren Buffett told the Associated Press in February. "She separates out the ones that fate has delivered a cruel blow in one way or another and helps them out in ways that change their life. I'm very proud of her."

Much of the Sunshine Lady Foundation's grants go to individuals whose hard-luck stories are vetted by 100 volunteers and eight program officers (which the foundation calls "doers").

The foundation also funds the Learning by Giving Program, which gives grants of \$10,000 to fund college courses on philanthropy to teach students about giving. In 2008, it also endowed a Women's Independence Scholarship Program with a \$30 million grant. The program gives victims of domestic abuse grants for college tuition.

The Sunshine Lady's IRS Form 990 for 2010 reports that it had assets of \$10.7 million and spent \$8.5 million on grants.

### **Susan Thompson Buffett Foundation**

Look at the Susan Thompson Buffett Foundation website, and you'll find two programs: college scholarships for Nebraskans and an outstanding teacher award for Omaha teachers.

This is highly misleading. The foundation, whose assets include \$3.5 billion in Berkshire Hathaway stock willed by Susan Thompson Buffett on her death as well as an additional



\$951 million transferred by Warren Buffett since 2006, has a very different mission. It funds scholarships to train obstetricians and gynecologists in abortion through its Kenneth G. Ryan Residency Training Program. It also provides international scholarships for abortion practitioners through Family Planning Fellowships.

Warren Buffett has never spoken publicly about his views on abortion, and his 2006 announcement about his grantmaking said only that the goal of the Susan Thompson Buffett Foundation was “to focus intensely on important societal problems that had very limited funding resources,” without explaining what these problems were. In an interview posthumously broadcast on the “Charlie Rose Show,” Susan Thompson Buffett said, “Warren feels that women all over the world get shortchanged. That’s why he’s so pro-choice.” In a 2010 New York Times Magazine article, Emily Bazelon notes that the Susan Thompson Buffett Foundation “could have been more straightforward about its work [on abortion] from the start. Instead, according to some doctors involved with the program, a low profile eased the way for universities to sign on for the fellowship and the Ryan.”

Other research recently funded by the Susan Thompson Buffett Foundation includes a 2010 Danish study that showed that women who had abortions were about as likely to see psychiatrists after the abortion as they were in the year preceding the abortion, and a 2010 study showing that implanting an intrauterine device (IUD) in the womb immediately after an abortion was not risky.

### **Howard G. Buffett Foundation**

The Howard G. Buffett Foundation awards \$40 million annually in grants to improve agricultural practices in the Third World and in the U.S. Some grants fund fellowships at American universities, but much goes for on-site research to improve agricultural practices and productivity, often in partnership with the Gates Foundation. Some environmental activists attack the foundation because it supports genetic engineering to increase farm productivity in poor countries. Unlike everyone else in the Buffett family, foundation chairman Howard G. Buffett admits he is a Republican. His son, Howard W. Buffett, who worked in the Obama White House, became the foundation’s executive director in August.

### **NoVo Foundation**

Of all the Buffett children, Peter Buffett has agonized most about being wealthy. He struggles to pursue a career as a New Age musician, while his wife Jennifer acts as president of their NoVo Foundation (novo in Latin means “to make anew”). Its mission is to overcome “competition, exploitation and domination” which is the product of centuries of “conquest and colonialism.”

The NoVo Foundation’s primary activity is aiding girls around the world. “The world is pretty male dominated,” Buffett told the Sarasota Herald-Tribune in February, “and that’s

created a lot of problems. And there are systems in place that keep people down, so we're focused on changing the systems, and on correcting systemic failures, because the world isn't fair and not everyone has opportunities.”

NoVo is a junior partner with the Nike Foundation on “Girl Effect,” an anti-violence stay-in-school program for girls in less-developed countries. NoVo made a four-year \$60 million grant to the program in 2008. In collaboration with the New World Foundation, NoVo gives challenge grants to help minority girls stay in school and go to college.

In Chicago, NoVo has partnered with the Chicago Police Department on a campaign to change Illinois prostitution laws so that men receive jail sentences comparable to those of the prostitutes they frequent.

### **Sherwood Foundation**

Run by Warren Buffett's daughter, Susan Alice Buffett, the Sherwood Foundation primarily funds social programs in Omaha to help troubled teenagers and provide preschools for the poor. Its Buffett Early Childhood Fund plans to transform its grantmaking for Omaha preschools into a national grants program. In 2009, it announced it would spend an annual \$7 million on national preschool programs and \$7 million for Omaha preschools. The W.K. Kellogg Foundation will add \$16.5 million between 2009 and 2011 to Sherwood Foundation preschool programs. The younger Susan Buffett also has supported Girls Inc., a national nonprofit to help teenage girls.

### **Conclusion**

Warren Buffett has many admirable qualities. He deserves credit as a philanthropist for starting to give away his wealth while he is still alive and for putting a time limit on the life of the foundation he has endowed. The Gates Foundation will spend itself out within 50 years after the deaths of Bill and Melinda Gates.

Unfortunately, Buffett is also a pundit whose ideas are mainly wrongheaded. He ought to be advocating policies that ensure the creation of more great fortunes instead of trying to punish the successful by calling for higher taxes on their wealth. A smaller government would be less likely to ask the rich for “shared sacrifice.” If he wants to restore America's prosperity Buffett should reconsider his father's political principles. It's not too late for him to call for lower taxes and minimal government.

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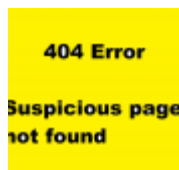
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