

In addition to this current income, foundations were able to enjoy some appreciation of their wealth holdings. To take a longrun view of this, the matter of how much of this appreciation occurred or was realized in 1962 may be put aside in order to concentrate on the expected value of the appreciation itself. About two-thirds of the current market value of the assets of foundations was represented by investment in corporate stock. Over the long run, it is not unrealistic to expect corporate stock to appreciate in value at a rate of about 5 percent a year.¹³ With about two-thirds of the assets invested in common stock, the annual appreciation on total assets in the long run ought to be about two-thirds of 5 percent or about 3 percent a year. This when combined with the previously calculated 2 percent of net worth addition from current operations and contributions would indicate a rate of growth for the existing foundations of about 5 percent a year. This is itself in line with the common expectation of the growth in the gross national product, and if all foundations taken together grew at this rate, they would simply maintain their present relative importance compared to other wealthholders. They would neither get comparatively larger nor smaller. Foundations with their heavy investment in common stock would still gain if stock prices advance relative to other prices, or would lose ground if stock prices fall.

As was seen in the prior analysis of the New York Stock Exchange data, foundations do not appear to have changed their relative share of stockholdings since 1950. It was also argued that much of the growth of foundations' share of total wealth relative to the rest of the society could be explained by the abnormal capital appreciation in their major investment, stocks, since World War II. The foregoing analysis of the 1962 income account does not purport by itself to show that foundations will not expand relative to the rest of the economy. It indicates that in a general way the 1962 income account seems to be consistent with the New York Stock Exchange data suggesting no significant growth of foundations in the aggregate relative to the rest of the economy. With the kind of investment portfolio foundations have, normal capital appreciation will be about 3 percent a year. Foundations in the aggregate, by retaining in 1962 out of new contributions and income (other than capital gains) about 2 percent of their net worth, grew at a rate equivalent to the rest of the society.¹⁴

It should be quickly added that much of the annual contribution is for newly established foundations. If foundations, taken in the aggregate, are not to grow at a faster rate than the rest of the society while new foundations are being formed, then existing foundations will have to grow at well under 5 percent a year.

Also, it should be added that it is not here proposed that foundations in the aggregate should grow at exactly the same rate as the private sector. This analysis only goes to throwing some light on the rate of growth that does exist.

¹³ This is consistent with the aggregate value of corporations increasing in proportion to the aggregate profit of corporations, which ought to increase in proportion to the gross national product, which is commonly expected to increase at about 5 percent a year.

¹⁴ Clearly, many foundations accumulated more of this out of ordinary income and contributions. If we examine all foundations except Ford, the accumulation out of ordinary income plus contributions was 4 percent of market value.