

**"Whatever Happened to the General Purpose Foundation?
Who is Thinking About the Big Problems?"**

Stanley N. Katz
Woodrow Wilson School, Princeton University

Waldemar A. Nielsen Issues in Philanthropy Seminar Series
Center for the Study of Voluntary Organizations and Service
Georgetown University

October 19, 2001

I should point out as a sign of the times that Virginia said that I was a member of the board of the National Faculty, which was a wonderful organization committed to bringing university, college and university, faculty together with K-12 teachers to improve the content of teaching in the schools. As of about a month ago, however, the National Faculty went into Chapter Seven bankruptcy proceedings - so this is a sad indication of one of the things happening to our field at the moment.

I am sorry that we are not just seated around a table. I do not want to give a speech, really, but the room is set up so that what I have to say is going to sound like a speech, rather than the chat I had planned. What I have before me is only a brief set of notes, not a formal text, and they represent no more than a week's general thinking about this problem, rather than the product of a research effort. The truth of the matter is that I have not done research on foundations for a long time. On the other hand it is true that much of my professional life has been involved with philanthropic foundations - as a researcher, consultant and observer. I suppose one of my roles is that of a foundation-watcher.

And therefore I want to begin by saying something about Wally Nielsen since he is not only the occasion for this event, but also the granddaddy of all foundation-watchers. I am sure there are several people in the room who knew Wally. I did, although not at all well. There is nobody in the field of philanthropy who put the fear of God into me quite as thoroughly as Wally Nielsen. If you had known him, or even met him, at all you'll completely understand why. Wally was not a lot of fun. He was all business. He was extremely direct and he said just what he thought when he wanted to think it and say it. He managed to rile up quite a few people, although as far as I could tell that was never his intention. He was not a muckraker in the sense that

he was trying to stir things up, but he was constantly stirring things up. But I think he made it possible for people like me and Barry Karl and others here to get into this field because he legitimized it. He could do so because he really was a practitioner - he had a career in philanthropy before he became a critic and scholar of philanthropy. I would, by the way, call him a scholar of philanthropy, although so far as I know he had none of the accoutrements of that profession. But he was serious and systematic and responsible in his analysis of foundations. I think he was the responsible or loyal opposition, and that is why he was taken seriously, because he knew enough to be credible to people in the field. I guess to the extent that I owe something to Wally, it is both an interest in philanthropic foundations as an object of study and also because I was in some way inspired by Wally.

That is to say I am actually very concerned about the development of philanthropy. I have been very active in various aspects of philanthropy and what I would like to say to the young people in the Nielsen Seminar is that the field offers a possibility for an engaged life as a scholar. I consider myself to be, and I have for some years now have been, a participant-observer of a great many kinds charitable organizations. I served for 12 years recently as a trustee for Southern Methodist University and I felt as though they ought to be paying me to watch them. I learned more about universities on that board than I have in a very long academic career, in some ways. So that, from my point of view, is Wally's legacy and I am really delighted that this Center has an association with him.

Insofar as I am a scholar of this field at all it really is sort of old stuff. Virginia mentioned articles that Barry Karl and I did sometime ago. We began working together in 1975 and we had hoped in a reasonable number of years to produce a two-volume history of American philanthropic foundations up to the New Deal. We produced several big scholarly articles (many more done by Barry than by me) and no book. Barry is currently working on a book which, I hope, will pull all this together. One of the reasons for the delay in book publication was that we found that we could not do the necessary research when we started out, with the exception of work on the Rockefeller philanthropies, in the Rockefeller Archive Center, which was founded just before we got working. (I think it may have been in '73 but I do not recall for the moment.) It was impossible to get into the records of the requisite foundations and so we had to sort of knock them off one at a time. We discovered the Rockefeller Archive and its wonderful people, especially Joe Ernst, who originally ran that archive who introduced us to other foundations. We found we had to cultivate foundation presidents and secretaries. Our next one was Carnegie, where a superb woman named Florence Anderson was the secretary and got us into the Carnegie records. They constituted a fantastic set of records, and we spent a lot of time at 437 Madison Ave. working on them. We also spent three or four years, primarily doing public speaking

trying to convince foundations that they should save their records and treat them in an archival fashion. That sounds obvious now but there are at least a couple of people here who remember the old situation. So that is just to say that it was not easy to do foundation research, and the same thing is true now for other kinds of charitable organizations. We are just now getting the awareness that this is a category and class of organizations that needs to be dealt with in a systematic scholarly way.

The problematic Barry and I started out with was the term "philanthropy." We made and make a distinction, which is an unusual one and will not work for everybody, but is important to me and informs what I have to say here. It is simply the distinction between "charity" and "philanthropy." Charity we considered the giving of alms in all of its possible forms and what it really means. I am going to talk about funds rather than volunteering this afternoon - gifts of time is another issue, and I cannot deal with that today. But, the gifts of money, to alleviate individual cases of distress whether they were ones of illness, ignorance or poverty, are three great categories of charity historically. Of course there is in the western and other traditions a long, long millennia of thought and practice about this phenomenon. It seemed to us what was new in American history at the end of the 19th century was that something new was coming into place, and is something we call philanthropy. It was something that was developed primarily, initially by people like Andrew Carnegie and John D. Rockefeller, who have never, I think, gotten enough credit for what they did. Of course when we say that it was Carnegie and Rockefeller, it was also and sometimes primarily their associates, particularly Frederick Gates and others who worked with him.

These new philanthropic actors made a distinction between charity and philanthropy. They were of course also charitable. They continued to be charitable, but they understood the difference between what they did in replacing the ruins of churches that had burned, or giving organs to churches, or giving libraries to communities with the search for the underlying causes - social, economic, and physical problems. That, to them, was philanthropy and that was very different. They could have said charity was in effect symptomology, addressing the symptoms of distress, social, and other kinds of distress. Whereas what they were interested in was pathology. They wanted to understand the underlying nature of these problems and that to me remains, and this is going to be the point of the talk, the highest aspiration of philanthropy. But I want to acknowledge that what I study, as I said before is not all of philanthropy, and that the charity/philanthropy distinction is not applicable to social-serving organizations or service-delivery organizations. I recognize whole worlds of what we now call philanthropy out there. But my primary research concern has been large philanthropic entities, primarily the private philanthropic foundations which started off as "philanthropic" in the sense in which both Carnegie and Rockefeller used the term.

Before I came to Georgetown yesterday, I spent a few minutes looking through the recent presidential messages of the largest contemporary philanthropic foundations. I only found one of the new foundation presidents who still uses the old Rockefeller/Carnegie language, and he is Gordon Conway, appropriately of the Rockefeller Foundation. The last sentence of his March 26th message is, "We do not treat symptoms, rather we go into things for the long haul for the effective, sustainable way as to alter the root causes of the world's complex ills." Well, I was delighted to find this passage, because Conway was using John D. Rockefeller, Sr.'s language. I think it is important to focus on such language of foundation purpose, that because that is what informed the investment strategies, as we call them today, of the original foundations. But there was something more than that because, of course, people like Carnegie and Rockefeller were political animals and indeed politics was very much at the front of their minds as they thought about philanthropy. When they looked around the United States, in, let's say the 1890s, when all of this really got going, what they saw was a nation, the United States, which uniquely among the Western nations had isolated itself from what they thought of as socialism. By socialism they simply meant the intervention of the state into social planning and the process of social change. They thought the weak state was uniquely the virtue of the United States. What concerned them and their fellow American elites of the time was to keep it that way. When they looked to England, which they saw as the closest sister-state, what they saw was a very rapid move in the direction of socialism, which after all had begun 30 years earlier in Germany under Bismarck.

So the need at home was to apply their private methods to public problems. This they recognized as entrepreneurs who had made huge fortunes through the application of modern business organization and planning methods and modern scientific knowledge to the solution of the extraction of mineral resources in the United States. They did not see why their business methods were not a model for the solution of social and political problems. But they thought the last institution in the world to do that appropriately was the government. America had a weak state tradition. It still does today. The early philanthropists wanted to keep it that way. They saw that one of the ways they could employ their great wealth was as a surrogate for state planning, the kind of planning that they recognized was absolutely essential if the United States was to move into the 20th century in a satisfactory way. I am not going to go into that further at the moment. They were not the only ones who saw this. There were other approaches to it at the time. But it was the dominant thinking of business elites in America at that time. They saw that this was not just a question of searching scientifically, largely through research, for the underlying cause of illness, ignorance, poverty. That knowledge had to be made practically useful by developing policies: strategies to address urgent public problems. So they created public policy foundations. Sometimes they worked at one remove and that is what the early "Big

Foundations," the term that Wally coined, were but there is not time to go into that now.

I think most of you will know quite a lot about this story, in which the Rockefeller Foundation and the Carnegie Corporation were the two most distinguished and the two largest players. There were other policy foundations, although they tended to be somewhat more narrowly focused. The most important was probably the Russell Sage Foundation but I would also point to the Rosenwald Fund as an example of the same sort of thing. You will remember that almost all of these early policy foundations had almost the identical statement of purpose for the trust. They were for the betterment, they said, of "mankind," or as Rockefeller would now say, "humankind." But if you think about that language for a moment, it is a blank check, is it not? You could do anything under that rubric. On the other hand it was the improvement of the world they had in mind and then they had to develop attitudes and strategies for achieving that. One was a highly proactive stance. They and their trustees decided what needed to be done, and they employed very bright people to help them do it - non-specialists, by the way. These early philanthropoids were largely young graduates of Harvard and Amherst and Princeton and such colleges - and they were socially responsible elite males looking for a way to be social active and productive. They were, by the way, the kinds of young men who would probably have gone into the CIA right after World War II.

They were very consciously elitist foundations. The working motto of the Rockefeller Foundation was "To make the peaks higher." That is, their investment strategy was to identify the best research institutions, whether they were medical institutes or universities or whatever, and to support and enhance what they were doing. This was not ground-up, bottoms-up, but top-down, and it was a very strategic and intelligent philanthropic investment policy. They also had very long-term strategies. They did not expect to solve the problems they were addressing, poverty or whatever, in a decade. They knew these were big problems and they were prepared to stick it out. They were prepared to develop long-term relationships with their grantees, for they recognized that this was absolutely crucial to the most important kinds of things that they did. They were persistent. They had self-confidence and they were highly tolerant of failure. Indeed as the century wore on, the only institutions more tolerant of failure in research institutions were those supported by the military. After all, if you only fund researchers who can guarantee you results, you are probably not funding interesting research and you are certainly not funding daring research - and this they understood. So they therefore defined their grants broadly. This enabled mid-course corrections for grantees, and sometimes even very basic changes in purpose. It made for a very, sort of, fluid system, in which the foundations were frequently quite cooperative with one another.

I do not want to talk too long so now I am going attempt a history of the rest of the 20th century in about five minutes. The 1920s were the heyday of this kind of "Big Foundation." Philanthropy was then very exciting. Lots of interesting things began - the origins of urban planning, the origins of the social survey, the origins of natural resources planning in the United States, the reform of medical education and of course the great Rockefeller programs in public health which led to the eradication of pelagra, yellow fever and a number of other diseases. Public health was of course the biggest single sector that the Rockefellers went into, and it is worth noting that one of the reasons that they did so, as with many of the other things, was they were wary of politics. They were aware that there was a democratic deficit in big foundation philanthropy and they were very worried, and correctly worried, about a political reaction against foundations. The first expression of reaction came in 1916 with the Walsh Committee Hearings on industrial relations. This was the occasion on which Henry Ford opposed organized philanthropy, saying that the best philanthropy was paying your workers a living wage. The hearings also featured my wife's grandfather, a radical socialist pacifist minister in New York named John Haynes Holmes, who got up and said words to the effect of "Who are Andrew Carnegie and John Rockefeller to tell us what the appropriate objects of philanthropy are? That is something that the people ought to do themselves." Such criticism of foundations does not go away. More or less every ten years we go through public hearings of this sort. They take different forms, and they are a little more sophisticated now, but we should expect public criticism to continue.

Foundations ran into tough times in the 1930s because the Depression was bigger than they were, conceptually. They did not know what to do about it and they were hung up, as they tried to figure out whether what they thought of as their traditional role, doing research and conceptualizing approaches to large problems, was as important as actually trying to alleviate the immediate crisis. Should we give to relief or should we make long-term grants? Does that sound familiar today? It does and I want to come back to that at the end of the talk. But in any case they and we in this country did not know enough to understand what to do about the Depression nor did we understand what to do about the coming of the then European War. It was a really tough time for foundations, and it is not clear where they would have gone had there not been a war.

But World War II, as wars always do in this country, transformed everything. There are a great many reasons for this phenomenon, but let me give a couple of the most obvious ones. The most important of course is that World War II marked the entrance of the government into massive social planning, some thing it had begun more or less for the first time in the 1930s. The New Deal was of course the first federal planning exercise. It was the first large-scale social engineering the federal government had involved in and it is an enormous watershed in American political history and the

history of the American government. But then, of course, as we moved into the War, the pace and scale of planning and government intervention grew: we got the Manhattan project, we got tremendous government involvement in scientific and technological research, which produced the notion of the government as an investor in research (and hence the National Science Foundation) following the war. NSF was substantially the product of, Vannever Bush's remarkable report, "Science, the Endless Frontier," which suggested how knowledge could be brought to bear on particular problems and strategies could be developed to address them. It was pure Rockefeller/Carnegie in its emphasis, although I am sure Bush never knew that at all. The impetus to government sponsored research led to the establishment of NIH, NIMH, ultimately to even by 1965, to NEH and NEA.

Then in the 1950s the other important change that I would point to would be the emergence of corporate philanthropy in this country. It was not until the A.P. Smith case in 1948 that it was possible for corporations legally to make philanthropic investments. As you all know, corporate philanthropy grew steadily in quantity, although its size has ebbed and flowed. But both state and corporate entry into the scene they had previously dominated had the effect of completely transforming the investment environment of the private philanthropic sector. The "big foundations" had in effect been the only game in town when it came to the funding of research and the development of long-term planning strategies. Now both government, and increasingly government at all levels, and the quickly growing corporate sector were involved in the exercise. One of the impacts on foundations, that is to their boards and presidents, was to make their institutional resources look quite small. It was one thing to have an endowment the size of the Rockefeller Foundation in 1930 or 1920. But the situation was very different in 1950, when even with what now look like very modest levels of spending at NSF and other government agencies dwarfed the total assets of the large philanthropic foundations. This phenomenon was exaggerated as corporate philanthropic investment came on line.

This created a fundamental watershed, forcing the philanthropic foundation community to reposition itself, and to rethink what its function was in a newer sort of congested, competitive investment market for research. While I am only talking about this aspect of large foundation activity, the reassessment of size in relation to function made for interesting, much more focused strategies. One thinks of such well-known examples as the Rockefeller Foundation and the Green Revolution. Or of Carnegie and children's television. There were many examples of exactly this kind of thing, and they led to new kinds of partnerships, especially partnerships with government (though it is seldom recognized that many of the earliest programs of the big foundations were undertaken in conjunction with the federal government). There were some partnerships with the corporate sector, although they were much less common.

More important, there were new kinds of partnerships with universities, which themselves had been transformed as a result of the Second World War. But after Sputnik and the Cold War expansion of higher education on the basis of the tremendous investment of the federal government in academic research, the foundations were no longer biggest investors, but rather niche players. What occurred then was the awareness of even large foundations, though Ford was an important exception, that they needed to focus and invest very selectively.

Another important development was that there were significant new entrants onto the foundation scene. Some of them, especially the Ford Foundation and the Lilly Endowment, had been created as tax havens in the 1930s. There were other less important large foundations, created for different reasons. Ford, of course, became the biggest kid on the block in the 1960s, and was a rather hubristic player on the scene. But not many foundations that behaved in that sort of way. Now this by the way, I think was this tremendous transformation in large-scale philanthropy that provoked Wally Nielsen, who had himself been a player, to rethink what was happening from what I would call a democratic point of view. The question he was putting was, "is there democratic deficit in foundations?" Today we would say, "Where is accountability in foundations?" We seldom define "accountability" precisely, but Wally knew what question he was asking, and asked the hard questions. I will conclude this briefest of all foundation histories by jumping ahead to the 1970s to notice the emergence of new large foundations that are politically on the other side of the road, that is ideologically conservative foundations. These relatively new foundations have appeared to be the most committed to the earliest philanthropic model. That is these are foundations who know just what they want, who know just what kind of planning they want and who have specific goals in mind in a way that many of the existing general purpose foundations no longer seem to.

I would observe that the main fact of the foundation situation today, and let's say over the last 20 years, is the tremendous proliferation of numbers and kinds of foundations. The sheer numbers, not to mention total assets, boggle the mind of someone who started thinking seriously about foundations as I did more than 25 years ago. What I observed then was a relatively simple foundation world. It is anything but a simple world at this point, and it is a world that is very hard to comprehend. Even Wally Nielsen would have found the task daunting. We now have a wild range of foundations, most of them quite small, of course, but I find it impossible to generalize about them. But if I focus only on the big foundations, which is my main interest, perhaps a few generalizations can be made. But the range is still very broad and complex. Look at the Robert Wood Johnson Foundation or look at Kellogg or Keck or MacArthur or OSI.

But what can we say about what is called the Atlantic Philanthropies, the Packard Foundation, or, Lord knows, the Gates Foundation - or my favorite of them because its one of my best funders, PHI. Most of you have never heard of PHI, though it is (or was) something like the eighth largest foundation in the United States. It is the Packard Humanities Institute and it is in effect a two-person foundation - David Woodley Packard and his wife, Pamela - and like Atlantic it does not accept applications. About 18 months ago PHI's assets were \$1.56 billion, split off from the larger family Packard Foundation. What is new in some of these recent big foundations is the fact of huge amounts of money controlled by very few people, with relatively little institutional infrastructure. Look at the Gates Foundation, struggling quickly to develop an agenda and an administrative structure, all the while dispersing enormous amounts of money in relatively new areas of philanthropic investment.

But we are also seeing what interests me more in a way, the reorientation of many of the venerable big foundations that I originally studied. Look at what is happening at the Rockefeller Foundation under the relatively new presidency of Gordon Conway, the Ford Foundation under Susan Beresford, or more recently at the MacArthur Foundation under Jonathan Fanton. There were lots of changes in those foundations, I think they operate in a very different sort of way - and they are becoming more focused and have very different notions of what kind of results they want. Things are different across these foundations, more different than they have been in a long time, and it is hard map the changes very adequately. Indeed, it is striking that there is little commentary about recent changes in large scale philanthropy, perhaps because most of the people who know enough to play the role Wally Nielsen played do not have his independence and courage anymore.

There have been major changes in what used to be important areas of foundation activity. Let me give you one example, education. I do not mean higher education. I mean K-12 education. If one looks back, even ten years ago, when much more foundation funding was going to research and programming and policy activity in K-12 education, you probably would have said that the bulk of both money and internal expertise was coming from Ford. But there were also significant commitments from Carnegie, Pew, MacArthur, Rockefeller and a handful of other foundations. But the same thing cannot be said as of now about any of these foundations with respect to K-12 investments. They are all making grants in that area, but the sums are smaller and they have dramatically fewer program officers who are deeply knowledgeable and well-placed in the field of primary and secondary education. I would argue that none of them is a player in education policy in 2001, and that is a very dramatic change. There are a lot of reasons for this change, but cumulatively it is making a negative impression on what has until recently been a very important area of foundation

activity. And K-12 education is not the only area where we are seeing significant and little-remarked changes in foundation emphasis and behavior.

One of the things that is happening in very different ways across the big foundations is what I would call is a task reorientation. They have more narrowly specified agendas and many of them, to one degree or another, are moving toward what is commonly called the "venture-philanthropy" model. They are not venture philanthropists, as in the case of the dot com philanthropists, for they are too big (and some of them are too old) for that, but what I have in mind is their use of partnerships, their use of benchmarks, their specification up front of deliverables from grantees, a general narrowing of focus and the creation of avowedly dependent relationships with grantees. None of these things were characteristics of the big foundations in the past.

Anyone who knows the writing and thinking of Michael Porter will recognize what I am referring to. To give you an example, let me refer you to Pew President Rebecca Rimel's most recent message. It is on the Pew website - it is a striking document and I urge you to look at it. The credo of the Pew Charitable Trusts, she says is "investing in ideas, returning results." This is a slogan Pew is advertising on NPR, so they must be proud of it. I would like you to consider what the slogan means. Rimel says it is a particular way of looking at our role as a foundation. "We intend not simply to provide money for charitable work but also to be judged for our ability to contribute to positive and measurable impact on society. We are interested in actual outcomes achieved with our resources." Further, "if we were interested in the means rather than the ends, we could support many worthwhile projects but we would risk accomplishing little towards reducing the scope or severity of the problems which we are addressing through our investments." And I just circled words later. I will go through the message very quickly, just to give you the sense of it. She says, further, that "the term grants is not a helpful one. For centuries the term has commonly referred to a gift or assignment of money or property for which there was no implied expectation of return." (My reaction was that John D. Rockefeller, Sr. or Jr. would be very surprised to hear that.) "And as a result most people think of grants either as rewards for past work or gifts in support of work to be done in the future but without the same kind of explicit conditions associated with investments from which a measurable return is expected."

This approach is clearly modeled on venture philanthropy. She talks later about concrete and verifiable outcomes. Rimel says, "Some critics of results oriented performance in the nonprofit sector equate measurability with bean counting and short time horizons. But all projects, short or long term, can have measurable benchmarks (another buzzword in Porter-land), "that determine whether the work is proceeding at an acceptable pace and whether mid-course corrections are needed" and so forth.

She speaks about the mind-set of investor and the analogies she employs are the mutual fund manager, the investment banker, and the venture capitalist. Rimel talks about people who receive their money as "partners," and so on. I think that certainly gives you a sense of the approach, but allow me just one more quotation: "We manage our grant-making in ways that parallel the behaviors exhibited by the successful entrepreneurs who founded the Trust. Our founders were highly focused. They identified niche markets, developed the skills and vehicles needed to perform well and took steps to maintain their competitive edge and ensure high level performance and pursued the most effective strategies to grow their company."

Now I have doubtless said more about the new Pew investment orientation than I should have, but I think this is a striking and worrisome direction for a large general foundation to take. I do not have the time now, but I would distinguish the innovative use of the venture philanthropy model at the newly reorganized Edna McConnell Clark Foundation from the Pew model. Rebecca Rimel's statement would have been not only unimaginable but incomprehensible to managers of the largest private philanthropic foundations until very recently in foundation history. None of the managers of the past talked this way, and for good reason. While I think Pew has gone further in the direction of venture philanthropy than most foundations, I think this notion is part of the emerging ethos of our time, and I think people who care about foundations and about philanthropy ought to think about it.

For myself, I think the tilt toward venture philanthropy is unfortunate for large foundations. You may well not agree with me and I would be interested in hearing from you about that in a few minutes. I believe that the original ambitions and strategies of the large foundations, however modified they have been over a period of time, were appropriate to the historic function of those institutions. The question I have is whether we do not now have to rethink the functions and processes of the large foundations - leadership, roles of staff, formulation of program - in relation to the current complicated and crowded milieu that now exists for grant-makers and grant-making. For the moment, there does not seem to be much critical discussion of these of issues. (Parenthetically, one might ask where the new Wally Nielsen is?)

The bottom line for me is whether it is still not reasonable to ask whether we do not need to know the underlying causes of terrorism just as much as we need to know the underlying causes of HIV/AIDS, as we did earlier, say, for yellow fever. To put the same question in another way, isn't there still a case that funding the search for the causes of contemporary poverty is at least as important as spending for relief? If the big foundations do not do such things, who will?

So that is what I have to say to you this afternoon. This is, as I said, not intended to be a speech. It is simply intended to provoke you a little bit. It is also to ask you to think

critically about the history of philanthropic foundations, and to ask whether this might not be a good time for those of us who care deeply about the field to put current developments in foundation policy into perspective. Don't we need to engage in some rather more systematic reexamination of what it is we are doing at the macro level in order to ask ourselves intelligently whether what the big foundations are currently doing is the best they can do?

Thank you very much for bearing with me.