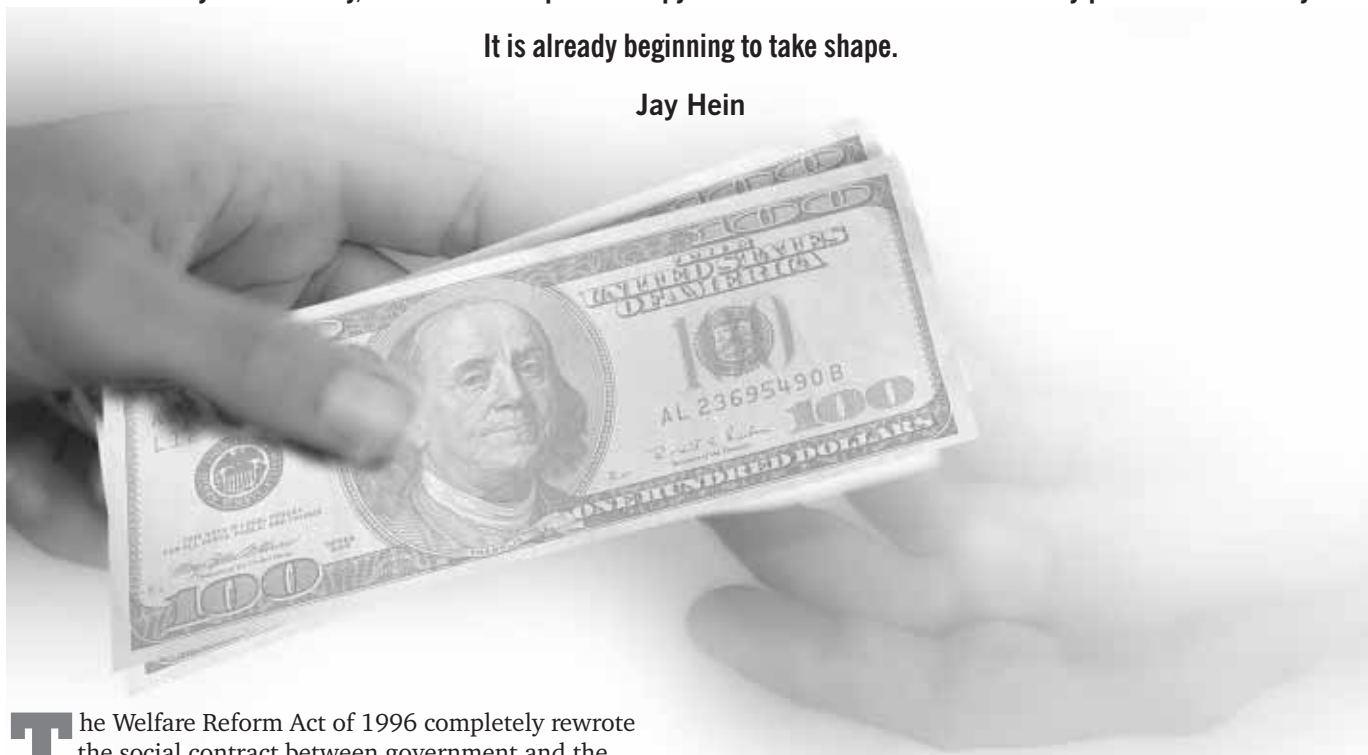


Rethinking Charity

In the twenty-first century, a new model of philanthropy will be needed to solve community problems efficiently.

It is already beginning to take shape.

Jay Hein



The Welfare Reform Act of 1996 completely rewrote the social contract between government and the poor, replacing the rights-without-responsibilities welfare entitlement that had existed for the six decades previous with a new commitment to helping people help themselves through work. Six years after execution of this new social contract, there is wide consensus that government efforts toward the poor have become more compassionate and more effective. As important as that may be, merely reinventing government is only part of the equation. We must be equally concerned with the myriad private, voluntary acts of charity being performed by the other two main sectors of society: the marketplace (private sector) and nonprofit organizations, which make up the so-called third sector.

Pursuing such a multisector approach to charity is not as easy as it sounds. Some argue that private actors cannot effectively perform in the public interest, because corporate self-interest will always prevail over corporate citizenship and acts of marketplace charity will always be marginal at best or merely ceremonial at worst. The prevailing attitude toward the nonprofit sector is that those groups *do* exist in the public interest, but that they are an unreliable alternative to the state. In addition to suffering from bad philoso-

phy, this view reveals a very uninformed understanding of the scope and scale of nonprofit activity in the United States.

According to Peter Hall's book *Inventing the Nonprofit Sector* (1992), there are 1.8 million registered nonprofit organizations in the United States, plus "probably millions of unregistered organizations, with [total] annual revenue greater than the gross domestic product of all but six nations, with more civilian employees than the federal government and fifty state governments combined." Harvard professor Peter Frumkin explains that these third-sector organizations are unique social institutions, serving both as vehicles for traditional service delivery and social entrepreneurship and as forums for political action and the expression of individuals' values. Frumkin concludes, "If those committed to nonprofit and voluntary action work to achieve multiple purposes that defy easy categorization, they may well succeed both in satisfying the donors, staff, and volunteers and in creating broad public benefits for deserving clients and communities" (*Society*,

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Frumkin adds that charitable donations to these organizations averaged nearly 2 percent of U.S. personal income over the past decade. Of course, contributions to these organizations are not only financial. In his highly acclaimed study *Bowling Alone* (2001), Frumkin's Harvard colleague Robert Putnam notes that "volunteering is one of the few forms of civic engagement for which there is no decline to explain." The Independent Sector, which serves as a trade association for nonprofits, confirmed Putnam's thesis with a recent survey estimating that 44 percent of Americans volunteered in 2001.

Yet, there are barriers preventing these private agencies from having their strongest possible impact on society's stiffest challenges. Third-sector commentators are quick to point out the lack of coordination between nonprofit organizations. Others note the lack of professionalism among many organizations' leaders and the lack of rigorous measurement of their efforts. But although better communication and more thoughtful partnerships between public and private agencies are indeed needed, coordination for its own sake is no panacea. In addition, nonprofit leaders ought to be better equipped and their efforts measured more effectively. The question is, how best can we make such improvements while still protecting the unique contributions of the nonprofit sector?

It is important to acknowledge, for example, that the very "unprofessionalism" that marks many of the third sector's leaders, especially at the grassroots level, is the same

trait that enables their work to be transformative. Consider the former drug addict who has more credibility with a current drug user than a credentialed professional does, and the former addict's own path to recovery is an enormously helpful map for steering his client (whom he might rather prefer to call a friend or neighbor) in the right direction. At the same time, this effective healer may indeed be a poor administrator. If so, his dearth of management skills will cause his stresses to multiply as funding development, staff and volunteer management, and replication efforts repeatedly fall short because of his lack of training.

My Hudson Institute colleague Amy Sherman has identified at least one way to help alleviate these problems. Last year, she conducted a study of faith-based intermediary organizations that provide the type of training and coaching essential to enhance organizational effectiveness, but in a context sensitive to the unique religious and cultural character of their grassroots counterparts. One reason they are able to achieve this balance is because these groups are often "blended intermediaries," meaning that they provide direct services themselves in addition to providing training to other groups.

Although we studied only twenty-two faith-based intermediaries in detail, Hudson's findings revealed an enormous, measurable impact on the field. The twenty-two groups collectively served 8,076 ministries across the country through a wide variety of training, facilitation, and other forms of direct assistance. One notable example, the Pittsburgh Leadership Foundation, raised and disbursed more than \$100 million over the past three decades to help launch new initiatives addressing educational, health care, and economic challenges in that city. Contrary to most training organizations, these intermediaries had relationships with their constituents extending beyond two years. As the ministries served attested, the most important work being done by intermediaries is often intangible, such as mentoring and encouragement.

Legislating Compassion

It was this type of community-based innovation that inspired George W. Bush to make "rallying the armies of compassion" a central tenet of his 2000 presidential campaign and subsequent administration. President Bush articulated his purposes and strategy in a Notre Dame commencement address in May 2001.

Reflecting on a similar commencement address delivered by Lyndon Baines Johnson in 1964 in which the new president outlined his proposed War on Poverty, Bush claimed that his vision was to correct the two major unintended consequences of LBJ's poverty campaign: too many welfare recipients were turned into dependents, and too many citizens turned into bystanders, which relegated the provision of welfare to government alone.

President Bush claimed that the 1996 Welfare Reform Act successfully confronted the first problem but that unfinished business remained to revive the spirit of citizenship. Said Bush, "There is no great society that is not also a caring society." In a later speech he remarked, "Loving your neighbor just like you'd like to be loved yourself is the natural extension of welfare reform." For words such as these,

“Nonprofit leaders ought to be better equipped and their efforts measured more effectively. The question is, how best can we make such improvements while still protecting the unique contributions of the nonprofit sector?”

LEGISLATION	PUBLIC STRATEGY	PRIVATE IMPACT
1. Citizens' Service Act	1. Fund additional Americorps members	1. Increase number of volunteers
2. Charitable Giving Act	2. (a) Create charity tax credits 2 (b) Expand Charitable Choice	2. (a) Increase charitable giving 2. (b) Increase number of faith-based social service providers
3. Welfare Reauthorization	3. (a) Fund marriage counseling 3 (b) Fund abstinence education	3. (a) Increase number of two-parent families 3. (b) Decrease illegitimacy

Compassion Clusters

Economist Michael Porter's research has found that "economic clusters" have given certain geographic regions a competitive advantage over others. Examples of such clusters are wine-making in Napa Valley and research and development in Raleigh-Durham, North Carolina. Porter's assessment is that clusters form as suppliers and other businesses either develop around or adapt to a central industry. For example, bankers who understand the cycles of wine-growing will tailor their lending practices accordingly. The result is a very favorable business climate for a particular kind of economic activity, such as making wine.

The same line of reasoning can be applied to faith-based charities. The emerging literature on faith-based social service provision indicates that a number of communities, such as Philadelphia and Indianapolis, exhibit an unusually high number of successful faith-based practices. Like economic clusters, these compassion clusters possess a robust set of industry suppliers, such as friendly philanthropies, effective trainers, and dynamic networking arrangements. That does not mean that faith-based programs cannot work in a city without such supports, but the task would be more difficult to initiate and sustain without them.

Thus, a new national emphasis should be placed on understanding how these clusters are forming and how to accelerate their growth. There is certainly a role for the White House here, but this effect should also be the domain of major philanthropic organizations, research institutions, and others who aspire to advance social change through community development. There is evidence aplenty that this movement exists; what is lacking is a national infrastructure by which to support its expansion.

One such effort currently emerging is the Faith and Service Technical Education Network (FASTEN). Funded by the Pew Charitable Trusts, FASTEN is collecting the best information available on nonprofit effectiveness, to be made available through a website, coordinated training, and peer-to-peer encounters. It also aims to be a network of networks, leveraging the knowledge and capacity of leading national nonprofit organizations for common purposes. It is a multifaith effort dedicated to helping existing or would-be nonprofits and the public administrators and philanthropists who support their work. In this, FASTEN is poised to become a primary engine driving multi-sector social change in America.

One way that government has proven effective at serving community change is

Washington Post columnist E. J. Dionne called the president "pitch perfect" on the theme of faith-based welfare.

Yet, there is another chorus forming that is singing a different tune. The *New York Times's* Elisabeth Bumiller, for example, has written that the president's social policy critics think he has adopted a familiar pattern: he generates newspaper headlines by making eloquent speeches on compassion and calling for millions of dollars to be spent on matters ranging from AIDS in Africa to the mentoring of children of prisoners, and then he fails to follow through to ensure Congress's support. U.S. Representative George Miller (D-CA) labels this approach "calculated conservatism" (a derisive reference to Bush's compassionate conservatism philosophy).

The president's supporters claim in response that he is indeed successfully executing his compassion agenda, a task made more difficult by Bush's pioneering approach to social policies within the Republican Party. As depicted in the accompanying figure, the Bush administration has promoted three signature bills that promote his vision for a more compassionate America: the Citizens' Service Act, the Charitable Giving Act, and reauthorization of the 1996 welfare law (TANF).

Bush Administration "Compassion" Initiatives

In addition to the proposed legislation, President Bush formed a White House Office of Faith-Based and Community Initiatives to accomplish two main goals. First, the White House and various cabinet agencies want to level the playing field for faith-based social service providers. There is ample evidence that these groups are unwelcome bidders for federal or state contracts and that, if selected, the faith component of their service provision is often prohibited. This development is especially unhappy news to program participants who choose a "faith" option.

Second, the administration is creating incentives for faith-based groups to participate in community-level social services. This is being pursued through federal agency demonstration projects and a multimillion-dollar Compassion Capital Fund designed to provide the type of intermediary services highlighted in the Hudson Institute study.

All this activity is yielding real results, yet such an inherently political strategy also faces serious peril. Politics naturally breeds allies and opponents over primary social questions such as "Whose responsibility is it to care for the poor?" and "How might we most successfully accomplish the task?" Credit or blame is applied to various strategies for political reasons, and the Washington-centric view of government funding (and its unhappy companion, regulation) and court decisions affect all efforts to legislate compassion.

Dionne and others have argued that the president has the right vision for society, but his voice is being muted by Washington's scorecard measures of legislation passed and funding increases. To amplify his message, and more important, to fuel a new citizenship movement that is already taking shape, the president must now turn the nation's focus away from Washington and direct it toward the "compassion clusters" that are forming around the country.



through a faith-based liaison program that identifies and supports local nonprofits. More than half of the nation's governors have named a statewide liaison, and some have even appointed regional or local brokers. Hundreds of mayors also have appointed liaisons, and the federal government has assigned staff to work with state and local officials on promoting government-faith partnerships.

The Hudson Institute has begun to investigate this work, and our early analysis reveals the amazing scope and diversity of services being proffered to the faith community. Some liaisons are assigned to help faith groups obtain government grants; others serve public information or ombudsman purposes. Still others facilitate the efforts of nonprofits by coordinating the responsibilities of multiple government agencies, paving the way for faith groups to work on more friendly terrain when they interact with the government bureaucracy.

Consider the following examples:

- Former Indiana governor Frank O'Bannon established a statewide office dedicated to connecting clients to faith providers—and connecting faith providers to state grant money. The latter effort has helped fifty-five faith groups receive \$4.5 million in state grants over the past few years.
- The state of Arkansas has established a faith liaison role not for programmatic or funding purposes, but rather to advance cultural renewal efforts in the state. For example, governor Mike Huckabee has directed his liaison to work with local religious leaders on matters such as marriage preservation.
- In Michigan, the state's faith liaison operates as a two-way street for grassroots, faith-based organizations. In one direction, the liaison serves as a single point of contact giving faith groups answers to their questions and resolving their problems. In the other direction, the liaison's office serves as the primary information disseminator to these groups regarding grant opportunities.
- Former Oklahoma governor Frank Keating started one of the nation's first faith liaison programs, and that state has become a benchmark for success. Through the state's County Initiatives program, local government officials enumerate the services not provided to their neighbors in need, and congregational leaders are invited to help meet those needs. The Oklahoma liai-

son, himself a former pastor, cites the value of making these ministry opportunities known. Many times, he states, well-intentioned church outreach is not directed at the primary needs in the community; this process helps close the gap.

To better understand their government-faith community partnership potential, the state conducted a survey of eight hundred faith groups. The findings paint a very compelling portrait of the promise and peril of this work: of the eight hundred faith groups, 75 percent favored collaboration with government. However, 82 percent feared the

Principles of New Philanthropy

Charity v. Philanthropy—Much of the past aid administered privately or publicly in the United States could be classified as charity: the benevolent action of a group or individual toward the less fortunate. New Philanthropy concerns itself less with intention-based charity and more with smart investment aimed at improving the wellbeing of society.

Innovation—Twentieth-century charitable organizations often resembled industrial corporations in their command-and-control systems. This approach emphasized process over performance, a pattern that must be reversed by twenty-first century efforts favoring innovation and social entrepreneurship.

Growing Small—Organizations that operate on a human scale generate more successful transformation than larger, impersonal approaches. Government and major philanthropies must find pathways to these groups, such as through community-based intermediaries.

Leveraged Capital—Capital takes many forms, such as social, intellectual, and financial resources. New Philanthropy will have to make good use of each of these value-enhancing mechanisms. For example, the businessman's problem-solving skills may be more useful to a nonprofit than his charitable donation. Both businessperson and charity must find a way to identify and deploy such skills.

potential infringement of government on their ministries if a business relationship were to be formed between the two. Resolving this tension will be a continuing challenge facing multi-sector, community-level reformers.

New Philanthropy

Supporting community change from the ground up is promoting democracy in its most unbridled form, and it runs counter to the twentieth-century version of philanthropy established during the Progressive era. There was a vision of philanthropy based on reason and top-down management as opposed to the spontaneous (dis)order prevalent in the grassroots groups' more unprofessional attempts to heal society's wounds.

The welfare state followed many of the Progressives' principles of one-size-fits-all solutions, with tragic results. However, traditional philanthropy, based on the same model, possesses neither the careful measurement systems nor the perceived responsibility for its spending or results that government does. Therefore, there has been no similar public outcry for reform of Progressive-era philanthropy. Should there be?

Author Richard Cornuelle argues that progressivism served a useful purpose during the early stages of the industrial age but has since outgrown its appropriateness. A new philanthropic philosophy must emerge. For this to occur, my colleague Lenore Ealy proposes that we move from a "constructivist rationality" (the belief that social institutions are best designed by conscious powers of reason) to a more "ecological rationality." To illustrate what this alternative resembles in practice, Dr. Ealy shares the observation made

Donor Education—Donors need to be helped to identify the values that animate their giving. Professor Paul Schervish refers to this work as the establishment of moral narratives. Paul Brooks is a leading advocate of integrating philanthropy into the traditional financial advisers' practices.

Accountability—Charitable organizations lack the feedback mechanisms of the marketplace, causing nonprofits to promote their intentions and image rather than results. Standards need to be established to rationalize the goals, activities, and outcomes of nonprofits to enable the social investor to make good decisions.

Measurement—The essential companion of accountability is measurement. Hewlett Packard Foundation researcher Jed Emerson has pioneered one approach to thinking about nonprofit measurement called the blended value proposition. This model enables us to understand the continuum between economic and social value creation. While such approaches are necessary, they are also insufficient. Often, the most effective human service intervention escapes the most sophisticated measurement system. This prompted the economist Peter Drucker to observe that at times, social change must be defined rather than measured.

Continuous Improvement—Management information and leadership training is essential for the nonprofit manager to extend what works and cease what does not.

by British political philosopher Michael Oakeshott about the appearance of the European states: "Each was the outcome of human choices, but none was the product of a design."

Such an ecological rationality seems well-suited to the two dominant factors already evident in twenty-first century philanthropy, namely *growth of donors and resources* and *control by donors over their disbursements*. The growth of philanthropy in the United States is stunning. There are over 60,000 active grant-making foundations across the country, holding nearly \$477 billion in assets. This is more than a two-fold increase over 1990 figures and a three-fold increase over 1980 levels, according to the Bradley Center for Philanthropy and Civil Renewal.

It is not just the gross numbers that are increasing at a staggering rate; the type and diversity of funds are growing as well. The most prevalent of these new strategies are donor-advised funds, whereby the philanthropist contributes cash, stock, or other assets to special accounts. The individual donor benefits from a tax deduction and the ability to parcel out the funds to his interests over an extended period of time. This trend is likely not only to continue, but to grow exponentially. Yale Law School's Claire Gaudiani notes that Americans have given more than \$2 trillion to charity over the past twenty years. Personal generosity has ranged from a high of 1.9 percent of personal income to a low of 1.5 percent during this time. If individual percentage of income giving patterns remain at these levels, we are likely to see a stratospheric \$6 trillion go to charity during the next twenty years. (This projection is based on Boston University professor Paul Schervish's oft-cited research predicting \$41 trillion to \$136 trillion in wealth will transfer from one generation to the next between 1998 and 2052.)

These numbers, while hard to fathom, represent both an enormous opportunity and challenge. This again resembles the state of affairs at the dawn of the Progressive era. In its critique of Andrew Carnegie's 1889 manuscript entitled "Wealth," the British *Pall Mall Gazette* editorialized,

Great fortunes, says Mr. Carnegie, are great blessings to a community, because such and such things may be done with them. Well, but they are also a great curse, for such and such things are done with them. Mr. Carnegie's preaching, in other words, is altogether vitiated by . . . practice. The 'Gospel of Wealth' is killed by the acts.

How might we avoid a similar future characterization of our era's social giving? Surely not by the establishment of new scientific protocols to be imposed on the myriad new philanthropists aiming to benefit society through their generosity. There is nothing wrong with applying the principles of reason to philanthropic investments. However, it is time to reverse course from approaching these nonprofit entities with rigid "how to's" to a more bottom-up approach. We need a relentless commitment to unearthing the dark matter of civil society, described by my Hudson colleague Bill Schambra as the "countless, small, scruffy grassroots groups that may be invisible to society's elites, but are centrally important in the lives of citizens in low-income communities."

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