

## The Challenge of Modern American Philanthropy

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- Editor's note: The following was adapted from a speech Martin C. Lehfeltdt, president of the Southeastern Council of Foundations, delivered to the annual assembly of the Richmond Memorial Health Foundation on May 30. Foundations and the other organizations in the not-for-profit sector have been under attack for the past several years -- primarily because of some egregiously bad behavior by a very small number of them that was widely publicized. The resulting congressional scrutiny was an important reminder that foundations need to be not just legally compliant but ethically accountable and transparent -- and that they need to exercise wise stewardship over the resources entrusted to them.

However, foundations are at the top of their game when they have the guts to take on tough challenges -- when they are prepared to break ranks with their own traditional guidelines, with their peers, and sometimes even with public opinion to tackle issues and problems from which it would have been much easier to turn their eyes. Risk-aversion, to my way of thinking, is not an especially noble calling. For that reason I was very impressed by the farsightedness of the Richmond Memorial Health Foundation when it helped to underwrite the Older Dominion Project. More foundations, which all too often are characterized by their cautiousness, need to demonstrate this kind of vision and courage.

Today I want to delve into two areas: the historical context of Southern foundations and the future context in which they may be expected to function.

As a field, organized philanthropy in our region is a rather recent phenomenon. It didn't really begin until after the Civil War when George Peabody, a Northern industrialist, was moved by the desperate plight of the former Confederate states. He established a major fund for the education of poor children -- black and white -- throughout the South. Other philanthropy from the North continued that pattern into the 20th century, but there simply was no significant wealth in the South after the war and therefore, understandably, very few foundations existed. (The first major foundation in the South was created by James B. Duke, who created The Duke Endowment with \$40 million in 1924.)

More than economics, poverty in our region was physical, psychological, and spiritual. A special commission appointed by President Franklin D. Roosevelt in 1938 labeled the region as "the nation's No. 1 economic problem." Journalists and other commentators also were quick to describe our part of the country as a social hellhole, an educational disaster, and a cultural wasteland. An enormous exodus of human talent that had started after Reconstruction continued to drain the South of much of its creative leadership and labor force. The ravages of the boll weevil in the 1920s dethroned cotton as king. Although the region was still primarily agricultural, an inferior system of roads made it almost impossible to move the yield of the land to markets where it could be sold. The system of white supremacy further poisoned everything it touched, and the absence of air conditioning kept the pace of life moving at a crawl.

Yet, in retrospect, the Great Depression also set in motion the first steps of a true reconstruction for the region. Roosevelt did not need a commission to tell him about rural poverty, outdated agricultural practices, and economic distress.

From his dozens of extended-stay trips to Warm Springs, Ga., for polio therapy, he knew first-hand of the misery that was part and parcel of life in a state he came to consider his true home. Under his direction, federal funds began to pour into the region for rural electrification, public works and transportation projects, agricultural improvements and supports for farmers and their families, and minimum hours and wages for textile industry workers. Not unimportant, a simultaneous rise to powerful leadership positions in Congress by Southern Democrats brought a new national stature to the region and political leverage.

World War II channeled billions of federal dollars into the South's war-related industries. These included Naval shipyards and ports, military bases, national training facilities for the U.S. Army's infantry and aviation cadets, and the production of aircraft and war materiel. Yet, despite these financial infusions, the decade of the 1940s and the '50s represented differences from the past that were better measured in degree than kind.

Part of this torpor reflected long-standing patterns of Southern demography. The national waves of immigration that swept through the country in the 1880s and 1920s skirted the South -- as the region still lacked the allure to attract outside investors or in-migrants. The enduring demographic fact of the South after 1865 was out-migration. While African-Americans began leaving the region as soon as they could (and were able to) during and after Reconstruction, it was during the era of World War I that a Great Migration settled in, when an estimated 700,000 blacks moved to Northern cities. The trend continued through succeeding decades. By 1960, 68 percent of the African American population in the U.S. lived outside the region compared with only 10 percent in 1900.

The South was also home to hundreds of thousands of square miles of poor (and often vacated) farms and pulpwood forests. With the spread of white sharecropping and tenancy in the countryside after 1880, and a rise in farm foreclosures, more than 3.3 million whites began fleeing the region too.

The history of Southern philanthropy, such as it was during the 1940s and '50s was inextricably tied to the fortunes of a handful of families who learned how to make money in the distinctively Southern occupations of textiles, tobacco, timber, and the production of soft drinks. Many of their founders established important foundations that continue as a vital source of philanthropy to this day.

Nonetheless, even as late as the mid-1950s, the South remained in relative isolation from mainstream American life. It was the success of the Civil Rights Movement of the 1960s that launched the rebirth of our region.

By the 1970s, a growing portion of newly created capital was being used to establish private and community foundations (such as the Community Foundation Serving Richmond and Central Virginia -- one of the largest in the region), and the annual rate of foundation creation began to

exceed the national rate in 1977. Today the South is home to some 11,000 foundations, although it is important to remember that only about 700 of them have assets of more than \$10 million.

Yet one other major catalyst has fueled the expansion of charitable capital in the South during the past decade. The law requires that proceeds from the sale of assets of tax-exempt entities go to charity. There are a number of ways this requirement can be met. One is the establishment of a foundation to benefit the community previously served by the nonprofit. The importance of this legal provision to the creation of philanthropic capital in the South began to become apparent in the mid-1990s when for-profit corporations began to purchase local hospitals and health care plans throughout the region, and their board used the proceeds to establish new foundations.

Today, approximately one-third of these "health legacy" foundations (like the Richmond Memorial Health Foundation) are in the South. These 70 or so foundations (an infinitesimal percentage of the region's 11,000 foundations) hold nearly 8 percent of the South's philanthropic capital. Two new large ones in Danville and Suffolk are part of this trend.

We need all of these new resources. Despite the incredible growth of wealth and the creation of new foundations (all of which is going to continue, according to the studies of Paul Schervish at Boston College), our region faces major challenges:

--The poverty rate in the South remains the highest of all regions (14 percent).

--Relative to other regions, the South's physical well-being has hovered at the bottom for as long as these measurements have been recorded. The region is not likely to shed this dubious distinction anytime soon, as we continue to have a higher than average incidence of heart disease, cancer, diabetes, infant death, and low birth weight.

--To make things worse: Southern workers have the highest incidence of uninsured health coverage (18.3 percent) of any of the regions.

Today, the South is the residence of more than one-fourth of the U.S. population -- a figure that could well double within several decades through in-migration from other parts of the country and the world. It also must lay claim to being home to more than 40 per cent of the nation's poverty. Much of this poverty is rural and/or African-American -- and poor blacks and whites who cannot sustain themselves economically are pouring into our cities. Yet, despite the acceleration in the growth of foundation resources, the region still has only about 11 percent of the nation's foundation assets.

Let's take a quick look at how foundations that focus their grantmaking on health are doing these days:

According to the 2008 edition of Foundation Giving Trends, published by The Foundation Center, foundation funding for health nationally jumped from \$3 billion-\$4 billion in 2005 to a record \$4.4 billion in 2006 -- an increase of 28.6 percent. As a result, health's share of total foundation grant dollars rose from 20.8 percent to 23 percent, surpassing education and capturing the largest share of grant dollars for the first time on record.

Here are just a few sentences from Knowledge to Action, a publication of Grantmakers in Health, that reviews this organization's work of the past 25 years:

"As we look back at the past two and a half decades, we can be rightfully proud of the progress made in health and medicine. And if we think in terms of dollars, infrastructure, and technology, our health system has become the richest, most extensive and advanced in the world. Yet there is strong evidence that the U.S. lags behind most industrialized nations on critical measures of health status.

"Our system often does not deliver the care that people need. In fact, it too frequently harms them. It is myopic in its focus on individual care rather than the public's health. It rations services, not through explicit policy decisions, but by income, race and immigration status. It emphasizes treatment over prevention. And it leaves millions of people disenfranchised while it wastes billions of dollars on unnecessary care."

The report includes a series of bullet points called "Fast Facts." Here are just some of them:

- Income inequality in the U.S. has increased steadily during almost four decades.
- Well-documented disparities in health exist between whites and non-whites.
- Among U.S. adults between the ages of 25 and 64 the overall death rate for those with less than 12 years of education is more than twice that for people with 12 or more years of education. The infant mortality rate is almost double for infants of mothers with less than a high school education compared with their more educated peers.
- Here's one that relates to the issue of aging, in which the Richmond Memorial Health foundation has involved itself: Individuals lacking social ties have two to three times the risk of dying from all causes as compared to well-connected individuals.

All of this information is disturbing. It suggests that even though we are giving away more money for health than ever before, we are losing ground. That seeming paradox is creating a new context in which foundations will have to operate.

Foundations exist because of a contract they have forged with government. Our lawmakers long ago determined that they are willing to forego taxing the wealth that creates foundation assets with the understanding that those resources will be used to benefit all of society. However, we now are witnessing a new surge of challenges to the right of foundations to support what they choose. More specifically, proposed new legislation in several states would require the largest foundations to document that their philanthropic activity is focused upon organizations that exist to help our country's neediest citizens.

As the CEO of a membership organization of grantmakers, I have tried to remain professionally neutral on the subject of what should be supported. Our association has intentionally erected a very large tent under which all sorts of foundations and giving programs are welcome. So long as their grant making falls under the broad and required rubric of operating for the public good, they are welcome to join us, and we applaud their work. Beyond taking that neutral stance, I also am convinced that it would be very ill-informed and even dangerous to eliminate the independence of any of our nation's private foundations.

Perhaps I'm being cynical, but I don't think that the proposed legislation is motivated by an especially altruistic vision. Rather, I believe that a major reason for some lawmakers to covet more control over philanthropic capital has to do with the intergenerational transfer of wealth to which I have referred. We're fond of saying that philanthropy is about much more than the money. That's true, of course, but the trillions of dollars that Paul Schervish has predicted will be involved (a transfer which seems to be happening at an even faster rate than he once imagined) is beginning to attract the attention of public officials.

Why? Because even as these trillions of dollars are increasing our charitable reserves, our federal and state governments are posting record deficits and, according to some critics, demonstrating no political will to raise taxes from those best able to pay them. Essential services are being cut, especially for the poor. As a result, we are going to hear more calls and demands for foundation resources to provide the safety nets that governments no longer are supplying.

Never mind that philanthropic dollars -- even all of our newfound wealth -- pales into insignificance when compared with public treasuries. It is an absolutely ridiculous contention that private giving by both individuals and foundations can replace the public dollars and new public policies that are required to ensure that all Americans receive adequate education and health care. For all of their seeming great wealth, the assets of foundations don't even show up on the radar screen when compared with public resources. If all of the foundations in the United States were to liquidate all of their hundreds of billions of dollars in endowed assets today, the total would barely cover this year's federal deficit.

It remains to be seen whether these calls for foundation help will ripen into new legislation that seeks to tell foundations which organizations they should support or will simply leads to higher taxation of Foundation assets. One thing is certain: foundations, which don't have a lot of friends on the best of days, are sitting-ducks for election-hungry politicians.

Another source of the interest in determining how foundations should use their charitable resources comes not from legislators but from social critics. Some time ago, Bob Reich, an associate professor at Stanford University, wrote a provocative essay in which he asserted that philanthropy has failed in its responsibility to respond to the needs of the poor and the needy -- a duty that he believes lies at the heart of its broad mission.

I'm not going to walk you through all the details of my reasoning, but I see the situation through a somewhat different lens. A few moments ago I cited some of the statistics of grant making for health and noted that although it's on the increase, we seem to be losing ground. The same condition appears in the areas of education and other human services. However, as I review the situation, it seems clear that many philanthropic organizations actually made valiant efforts to direct their resources to support assistance to the neediest of the region's citizens. The failure of philanthropy, if we stick with the language of Reich's indictment, is not a disinterest in poverty. It is an unwillingness to address its root causes.

Thinking about this matter has brought me back to the wisdom of Maimonides. That great Jewish philosopher centuries ago spelled out a hierarchy of giving. While he acknowledged the value of all charitable behavior, he was clear about what was at the top of his list. To paraphrase

Maimonides, the highest form of philanthropy is giving that helps to move one's fellow human being from a position of dependency to self-sufficiency. I find this declaration to be very profound.

Poverty clearly is the bane of the United States -- the wealthiest country in the world. It has many parents: poor education, poor health, and, of course, joblessness. I submit to you that the ethical choice before all of us, whether we operate in the private, not-for-profit, or governmental sectors -- and whatever our distinct missions may be -- is whether we will continue to be satisfied with slapping bandages on the needs of the poor or whether we are going to change the policies and practices that help to perpetuate poverty. It is a challenge before our entire society, if we indeed intend to advance liberty and opportunity for everyone.

Foundations have the opportunity to be leaders in tackling this challenge. In a sense, it's all about that courage I called for at the beginning of these remarks.

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