Bookshelf

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September 11: Perspectives from the Field of Philanthropy

Edited and published by The Foundation Center, 2002, 194 pp. Available for free download from <http://foundationcenter.org/gainknowledge/research/911/Sept11Book1.pdf>

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The attacks on the World Trade Center in New York and on the Pentagon were not unique in motivation, but they were unique in kind and scope. The circumstances in which the philanthropic sector was called on to respond, in the short and in the long terms, were quite different from what they were used to. How they responded is of interest from management and legal perspectives.

The Foundation Center has assembled articles from a number of organizations that were involved in the response to the attacks. Most of the articles are in the form of write-ups of interviews with senior officials of the organizations; these were originally published in *Philanthropy News Digest*.

One of the factors that made the situation unique was the overwhelming public response to the attacks, and the huge numbers of donations, assisted by generous government grants. It was estimated that 64% of the American population gave something in response, in addition to many foreign donors and volunteers. This presented several challenges:

- The amounts for the direct victims and their families were sometimes more than they needed; they were no longer in financial difficulties (if they had been at all) before the donations stopped coming.
- The donors often wanted their donations to go to the victims, narrowly defined, but the organizations saw a need for longer-term efforts or even for reserves to handle future emergencies, after the direct victims were taken care of.
- Some of the relief needed was to support small businesses that had depended on the customers who worked in the World Trade Towers, but supporting businesses has not traditionally been accepted as a charitable purpose.
- Many relief organizations received donations but had no way of eliminating duplication of grants to the same victims. Collecting and compar-

ing information on potential claimants raised logistical and privacy concerns.

The articles in this collection address how charities, politicians, and the media responded to these and related challenges, and what they have learned from the experience. They were written in the first half of 2002, so relief efforts were continuing at the time. They do not represent a "final" balance.[1]

Management guidelines for such circumstances are set out by Eugene Steuerle of the Urban Institute. The four principles of public finance that he identifies are:

- vertical equity: individuals with greater need (lesser means) should be assisted more (or pay less);
- horizontal equity: individuals in like circumstances should be treated equally;
- individual equity: individuals are entitled to the rewards resulting from their own efforts and to determine how their property is used; and
- efficiency: programs should aim to maximize net benefits.

Applying these criteria is not always easy; they can conflict. The author shows how organizations tried to apply them and some of the difficulties they encountered. It is clear from this and other contributions to the collection that the media often did not appreciate how complex these trade-offs could be or were not interested in the complexity. This added public pressure to already difficult decisions. It is important, says Steuerle, for charities to be very clear in their advertising about what they will do with donations so that donors' expectations are met as far as possible. The sector as a whole should not fear accountability. Proper analysis will make planning for future disasters more effective.

Victoria Bjorklund, a private sector lawyer with charitable clients and a seat on the board of a foundation, provides a legal analysis of what happened. She deals with what constitutes a charitable class, since charity in the U.S., as in Canada, must be for the public benefit, not a closed group. Careful drafting of charitable objects can assist.

How one determines need is important, too. Must recipients be poor? There is a difference between relief of immediate suffering and longer-term assistance; the former can be provided to everyone, the latter probably not. Donors give to charities because the charities appear to have skill in determining relative need. Otherwise there is a risk of fraud in distribution of or in claims on the fund. As another contributor says, victim compensation is not the same as charity.

1. The book reviewed here is the first of a series of reports on 9/11. The other two books are available for download from <http://foundationcenter.org/gainknowledge/research/911/Sept11Book2.pdf> and <http://foundationcenter.org/gainknowledge/research/911/Sept11Book3.pdf>.

The American tax authorities issued interpretation rulings on disasters in the wake of September 11. They say that victims "have no automatic rights to a charity's funds," which is consistent with the general principle. However, so much money was given that this rule was relaxed somewhat in practice. The calculations were complicated by the provision of government funds as well.

The author discusses at length the privacy problems involved in collaborating in relief efforts. Organizations had different privacy policies, and different classes of victims had different wishes (families of illegal immigrants had additional incentives for privacy). Yet the lack of coordination led to criticism, too. Eventually the Attorney General of New York stepped in and mandated collaboration in a way that worked.

Finally, the Bjorklund article deals with the problems of the Red Cross, which was overwhelmed by donations and proposed to redirect some of the money to future needs. This decision was criticized by donors and the media, and the president of the Red Cross was compelled to resign. The organization has since set up a system to allow donors more direct control over the destination of their donations.

The other contributors to the book were responsible for organizations involved in relief efforts in one way or another, as front-line care providers (including the Red Cross), as coordinators (such as the creators of the September 11th Fund), as regulators (the New York State Attorney General's office), and as community activists in different communities. They speak about the impact of the disaster on Chinatown, not far from the World Trade Center, and the role of community-based organizations as a whole, They speak of the arts, of nonprofit organizations, and of human service providers generally. They note that philanthropy fills the gaps (in time and in application) in what the full society, through its government, is ultimately responsible for. They show how both immediate and long-term needs were planned for and served. Rebuilding lives and communities takes more than cash; it requires community consensus that demands time and process to achieve.

Finally, three chapters deal with the impact of September 11 on society, not just on the direct victims. How much civil liberty must be traded for security, and how can we judge that soon after an attack of this scope? How does terrorism affect civil society in general, and what might be done at the international level to resolve the problems that create terrorism? Can philanthropy contribute to healthier communities, which would not be at such risk of terrorism? The philanthropic sector is a varied one, and a range of responses to such issues is constructive.

The long-term perspective includes a recollection that there are many philanthropic issues that predate 9/11 and that continue: poverty, diversity, school reform, cultural demands, issues of race and gender and sexual preference, and so on. These are national issues that also have an international dimension. The role of NGOs in international policy needs to be considered. In short, creativity and "risk capital" for social welfare provided by the charitable sector are the way of the future, without losing sight of the lessons on the ground that the rest of the book considers.

In all, this collection is a fascinating study of how to respond to a major disaster, taken while many of the efforts were continuing. Many of the practical and the legal issues would arise in a similar way in Canada. A detailed comparison is beyond the scope of this review. One of the tests of the ability of the sector to learn from 9/11 is how it responded to Hurricane Katrina in 2005. We await with interest the test results from that experience.[2]

The Future of Philanthropy: Economics, Ethics, and Management

By Susan Raymond
Published by John Wiley & Sons Canada, 2004, 308 pp. Cloth: CDN $74.99

Why Rich People Give

By Theresa Lloyd
Published by Philanthropy UK, 2004. Paper: £15

Just Money: A Critique of Contemporary American Philanthropy

Edited by H. Peter Karoff
Published by TPI Editions, 2004, 247 pp. Paper: US$ 20.00

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Three recent books illustrate three current streams of thinking about philanthropy. *The Future of Philanthropy: Economics, Ethics, and Management* is firmly within the "philanthropy as business" mindset; *Why Rich People Give* focuses on donors in the UK, and looks at philanthropy as "public benefit," complementing rather than substituting for state action; and, finally, *Just Money: A Critique of Contemporary American Philanthropy* considers philanthropy as a moral force promoting social change.

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2. See "Charities Hope Lessons of 9/11 Have Been Learned," PND News, September 21, 2005: <http://fdncenter.org/pnd/news/story.jhtml?id=116800027>.

The Future of Philanthropy reflects a dominant perspective in the U.S. today. A series of essays on philanthropy, governance, and the economy in the voluntary sector, it includes observations on ethics and accountability, non-profit management dilemmas, corporate and international giving, and reflections on changes after 9/11. Written as a series of vignettes that offer brief insights rather than detailed analysis, *The Future of Philanthropy* uses language borrowed from business: venture philanthropy, social investing, and efficiencies and market return. Some of the discussions, including the tax classification of U.S. not-for-profits, is less relevant for non-U.S. readers, and the reflections range from provocative and interesting to commonplace and superficial.

Author Susan Raymond points out that not-for-profits in the U.S. are on a "financial knife's edge" because of the large number of organizations operating with deficits. She observes that there should be an "urge to merge" these organizations, just as there would be in the private sector in order to find efficiencies. She does not, however, explain why this has not happened.

The analysis of giving trends in the U.S. is interesting: foundations with assets over $100 million are a tiny percentage of all U.S. foundations (3.5%), yet they account for more than half of all giving (56%). Inevitably this creates an internal pressure to move large amounts of money. But the research shows that the "best, most successful innovation at the community level comes from…the community." The "sizing problem" means that there is an internal preference for approaches that are at a high level of generality. Unfortunately, these may be mismatched with how innovations work and need to be sustained. This observation is relevant to large donors anywhere and invites reflection about granting practices.

Raymond looks at "philanthropy as business" from the now-popular governance perspective: she looks at those who sit on foundation boards and sees that foundation boards are not very diverse places. There is still a striking gender gap and a preponderance of inter-locking boards that reinforce a male bias. She points to rising levels of wealth in minority communities and calls for new entrants to philanthropic leadership from these groups. The section "Mission Meets Numbers: Is It OK to Lie?" appears to be based on the assumption that the market imposes rigor on for-profit entities whereas not-for-profits are encouraged, absent any market discipline, to distort the truth. Given what we know about the world post-Enron and WorldCom, these assertions strike the reader as counterfactual. The accountability discussion exhorts readers to practice good governance regardless of "who is looking," without offering any insight into the particular issues and constraints affecting not-for-profits.

Rather bizarre is the assertion that poor board governance is "more insidious when it occurs in non-profit organizations than in their commercial counterparts." The rationale, we are told, is that corporations answer to private stockholders rather than the public interest. From a historical perspective, this is incorrect. Certainly the dominant trend in the U.S. is one that focuses on shareholder interests, but if one goes back in time, the origin of corporations as joint stock entities was clearly grounded in notions of the public benefit, hence the "exceptional" privilege of creating a new legal fiction as a type of "person" (*pace* the film *The Corporation*). The importance of good governance and its relationship to lessons learned from the private sector is picked up again in a chapter entitled "Have We Learned Nothing?" that ends, strangely, with an error-ridden excerpt from Hamlet's soliloquy in which Hamlet talks himself into not committing suicide. It is difficult to discern what lessons we are to draw from this.

The Future of Philanthropy focuses entirely on philanthropy in the U.S., which means that it is suggestive rather than directly applicable to Canadian experience. Many concerns are shared in both countries, including the unresolved tension between what in Canada is called the social economy and the private sector that delivers similar or identical goods and services. On the other hand, the sheer scale of American giving and the influence this gives to private U.S. donors to shape health and education delivery (and to generate public policy options) dwarfs what is possible – or likely viewed by most Canadians as desirable – in Canada. A brief overview of similarities and differences in the two countries highlights the lower level of support for religious organizations in Canada, the much smaller foundation sector here, and the greater effect of tax incentives on Canadian giving.

Much attention is given to the ways that philanthropy may distort markets by undervaluing efficiency or encouraging duplication, but there is little discussion of how foundation-backed think-tanks and journals have in effect "privatized" much of the public policy development process in the U.S. While the sheer number of foundations in the U.S. permits diversity of viewpoints, it remains within a fairly narrow range of opinion that is hardly reflective of the full public interest.

In the second book, *Why Rich People Give*, the focus shifts from philanthropy as business to what motivates wealthy donors. By interviewing 76 'high-net-worth individuals' in the U.K., author Theresa Lloyd identifies a range of motivations ranging from belief in a cause, to self-actualization, to "wanting to make a difference," to a sense of duty or a desire to "give back" to society. For most of the people interviewed, giving was highly personal; even those who viewed wealth as carrying social obligations emphasized that giving was a matter of *personal* choice. Major differences in attitudes from the U.S. emerge: in the U.K., most view the state as responsible for providing basic services, with philanthropy acting as a lever rather than a substitute for government funding. There are fewer incentives to giving than in the U.S. and a more negative attitude generally toward philanthropy. This is at least in part the result of resentment of wealth and skepticism about donor motives, and of

English reticence to talk about money. As usual, Canadian experience straddles that of the U.S. and U.K.: like the latter, we still expect government to do the heavy lifting in meeting public needs and we have not (yet?) embraced the competitive high-profile public displays of philanthropy seen in our neighbour to the south.

The book concludes with a series of recommendations to promote philanthropy. Most are sensible, though unoriginal, suggestions for creating a climate of greater awareness and providing incentives of the kind already available in North America. The book also recommends that the U.K. build not-for-profit infrastructure and instil greater professionalism in donors and charities alike. However, the discussion feels curiously dated. There is no discussion of the so-called "new philanthropist" of the sort profiled in the recent survey by *The Economist* (February 2006) or in *TIME*'s 'man of the year' issue: young, phenomenally successful, self-confident "philanthro-capitalists" and social entrepreneurs.

It comes as a relief to leave the pragmatic but bloodless prescriptions of these two volumes to read the third book, *Just Money: A Critique of Contemporary American Philanthropy.* Edited by H. Peter Karoff, it is a more provocative and stimulating exploration by well-known commentators and critics of philanthropy in the U.S. Contributors such as Peter Goldmark, Adele Simmons, Steven A. Schroeder, and Bruce Sievers challenge foundations to address the serious problems afflicting American society and to eschew some of the reliance on 'metrics' and business-influenced management practices in favour of listening to communities and treating philanthropy as an art as much as a science. Most of the contributors have run large foundations and are familiar with the timidities and failings of organized philanthropy; but they are also passionate about its potential and make a strong case that the current focus on results, control, and donor interests may rob the sector of the creativity, relevance to community needs, and passion that should animate philanthropy at its best.

Unlike many philanthro-capitalists, the experience of these contributors as foundation leaders tempers their ambitions for philanthropy with an appreciation of the complexity of solving long-standing social challenges facing the U.S. and the world. But with all its nuances, the message of *Just Money* is unambiguous: philanthropy is more than a business, and the individual giver is more than a donor. What is missing from those views is a sense of the *creative energy* that is released when enlightened individuals with ideas, ideals, and money channel their commitment into positive action to meet critical areas of public need.

All three books rest on the assumption that while philanthropy in some respects needs to get its house in order, a future of steady growth is assured. Underlying this assumption are certain expectations of government's role and of continuing growth in private wealth and the much-heralded inter-generational transfer of assets. But perhaps there are more fundamental shifts underway. As one might expect, it is in the home of "philanthro-capitalism" and especially in the U.S. Congress, that these questions are arising first. Does philanthropy deserve the generous tax treatment it receives? How much spending is really for public benefit rather than catering to narrow or elite interests? Do hospitals and universities that sit on billions of dollars in endowments truly need tax breaks to encourage further giving? More broadly, is it possible to have "too much of a good thing"?

In Canada similar questions are beginning to be asked. Is the funnelling of several hundreds of millions of dollars into showcase cultural projects in Toronto meeting priority community needs and, if so, for whose benefit? Who or what determines that taxpayer-funded institutions like teaching hospitals or universities should depend upon private charity in order to fulfill their public missions? Whose responsibility is it to sustain the low-profile but essential work of thousands of charities struggling to provide services to vulnerable groups or defend unpopular causes in our society?

In this country we are still far from having "too much" philanthropy, but these three volumes remind us that it is not too early to refine our skills in developing both the art and the science of philanthropic practice.