American Foundations and the Federal Government under Obama. An assessment

Stefan Toepler, George Mason University

European Research Network On Philanthropy 8th International Conference Copenhagen, July 13-14, 2017

This presentation draws in part on Toepler, S. (2017). Public Philanthropic Partnerships: The Changing Nature of Government/Foundation Relationships in the US. *International Journal of Public Administration*, 1-13. http://dx.doi.org/10.1080/01900692.2017.1295462

The relationship between the federal government and foundations in the United States remains a somewhat under conceptualized issue.
In his seminal contribution on the general topic of government/nonprofit relations, Dennis Young notes that there often is “an oversimplified view of the nonprofit sector and its relationship with government.” (37). To facilitate a more complex and nuanced understanding, he proposed three different models of the relationship. These are the supplementary, complimentary and adversarial models.

Based on the foundational economic theories of the nonprofit field, especially Burt Weisbrod’s heterogeneity theory, he posits that in the supplementary model, nonprofits provide services for minority interests that are not being served by the government. Part of this argument is that nonprofits also focus on developing social innovations that are not yet ready for adoption by the majority. Nonprofits and government operate in parallel and apart of each other.

The complementary model is essentially the standard case of government nonprofit relations, where there is a division of labor between the sectors; with the government providing the financing and nonprofits providing the services on behalf of, and determined by, the government. Both sectors are closely intertwined with contractual relationships.

The adversarial model in contrast does not focus on service provision, but advocacy. Nonprofits advocate for social change on behalf of the minority interest that they serve, which for the most part entails changing government policies or programs. Government in return uses regulation as a means to contain the claims-making of nonprofits to preserve a focus on majority preferences. Nonprofits and govt are constantly at loggerheads with each other and the relationship is dicey.

Young then discusses the models over time, but it seems worthwhile to point out here that the supplementary model is somewhat less stable than the other two. As long as nonprofits are content to accept the status quo, the two lines could run in parallel indefinitely. However, once nonprofits decide to make claims on behalf of their constituents, the supplementary model can easily flip into the adversarial one.

The framework is of course very useful and has stood the test of time extremely well. Having spent my formative years at Johns Hopkins in Baltimore though, I am also partial to Les Salamon's view on this issue and personally prefer to keep the distinction between functions more clearly in view in the framework, and again these are first and foremost the finance and the service provision functions.

	Complementary	Supplementary	Adversarial
Finance Function	Government ⬇	Private philanthropy, fees ⬇	Private philanthropy ⬇
Service Provision Function	Nonprofit service providers	Nonprofit service providers	Advocacy nonprofits
Regulation	enabling	enforcing	restricting
Nature of Relationship	+ collaborative	+/- indifferent to guarded	- conflictual

The models then would look something like this: the finance function is fulfilled by government in the complementary model only, by private philanthropy and earned income in the supplementary model, and philanthropy only in the adversarial model. Service provision is of course by nonprofits in all cases, with more advocacy focused nonprofits in the adversarial and nonprofit service providers in the other two models.

To extent this further a little:

Marilyn Taylor has argued that regulation is in fact a third function and one that is not only relevant in the adversarial model. So, adding regulation to the mix then, I would posit that the complementary model is marked by enabling regulation aimed at supporting the development of nonprofits.

In the supplementary model, regulation has more of an enforcement character; i.e. the government provides oversight to ensure that nonprofits play by the rules and are not misused for profiteering or other issues.

In the adversarial model, regulation is primarily about restriction if not repression, typically of the more political aspects of what nonprofits do.

Considering both finance and regulation then (service provision being equal more or less), the complementary model calls for a collaborative relationship that is generally positive (notwithstanding the negative organizational impacts on nonprofits that are a byproduct of the contracting regime). this is essentially the core of Lester Salamon's argument.

In the adversarial model on the other extreme the relationship is conflictual and the government posture is negative. In between, the supplementary model suggest a government posture that is either indifferent, if nonprofits are apolitical and peaceful , or guarded if there are signs of nonprofits getting more unruly.

Foundations are of course a very different animal from the nonprofit service providers or advocacy organizations that we usually focus on when discussing government relations.

And while there is a role for them in the general government nonprofit relationship models, there is so far no explicit model for how government and foundation relate. Foundations don't provide services. So, where do they fit in?

	Complementary	Supplementary	Adversarial
Finance Function	Government	Private philanthropy, fees **Foundations**	Private philanthropy
Service Provision Function	Nonprofit service providers	Nonprofit service providers *Innovation*	Advocacy nonprofits *Social Change*
Regulation	enabling	enforcing	restricting
Nature of Relationship	+ collaborative	+/- indifferent to guarded	- conflictual

Getting back to the earlier table, foundations have no obvious role in the complementary model, but they are part of the finance function in the supplementary and adversarial models. In Young's discussion, he makes particular note of foundations as supporters of innovation within the supplementary model—assigning them one particular role there. In the adversarial model, they would be pursuing social change almost by definition.

Now following my earlier logic about the nature of the relationships, there is no particular reason to assume that foundations would have a positive collaborative relationship with the government--they're on the wrong side of the table. At best the relationship should be indifferent, at worst conflictual. Again conceptually that makes a lot of sense, because the collaborative relationship in the complementary model is based on a functional division of labor between government and nonprofits, that does not exist vis-à-vis foundations:

Like government, foundations engage in the finance function, setting up the potential for competition and conflict rather than public/philanthropic partnership … [In Thomas Dye's Top-down policymaking argument, foundations are mechanisms for elites to influence policy development and that may indeed lead to political conflict]

Adversarial History of Fdn/Gov't Relations

- Senate Industrial Relations Committee, 1915
- Select Committee to Investigate Tax-Exempt Foundations and Comparable Organizations U.S. House of Representatives, 1952-1954
- Patman Investigations, Select Committee on Small Business, 1960s
- TRA of 1969
- 1990s and early 2000s skirmishes: pay-outs, Senate Finance Committee, Ford Fdn Palestine grants, Clinton Fdn

Taking a historical view here, this point seems to hold, I argue. Slightly more than a hundred years ago, government did indeed perceive the emergence of the new philanthropic foundations as a major competitive threat. Accordingly, John D. Rockefeller's attempt to secure a federal charter for his new foundation was denied by Congress, and the Rockefeller Foundation, like the Carnegie Corporation, had to be chartered in New York. As Peter Frumkin noted: "The rise of large private foundations made some in Congress uneasy as philanthropic resources threatened government's monopoly over social policy."

Lingering distrust towards the robber barons-turned-philanthropists soon after led to the first Congressional inquiry in 1915.
Nothing came off it, but the phil foundation idea began to slowly catch on and then accelerated as MTR became near confiscatory during WW II. The influx of new money got foundations back into the crosshairs of Congress in the 1950s and then throughout the 1960s. the government's crusade against foundations culminated in the Tax Reform Act of 1969 which introduced very harsh restrictions on foundations that led to their decline during the 1970s. Foundations recovered, but a new growth spurt in the late 1990s again drew political interest that was not altogether beneficial. That the Clinton and trump foundation's got drawn into the political brouhaha, one could argue, is more than a political accident.

How did the foundation community address the adversarial stance of government and the threat to its legitimacy that it engendered?
Essentially by adopting a range of societal roles and functions that provided a non-controversial, legitimate and (politically) non-threatening niche for foundations to focus their efforts.

Much work has gone into mapping these special roles and functions. Among these, two have had particular policy salience in the US:

First, there is the innovation function, which foundations relied on from the very beginning. To carve out a legitimate social role, advocates right away claimed foundations to be 'societal venture capital' , 1987) that would tackle the "root causes of social ills" and in the early 20th century generated a large number of social and health innovations that foundations claimed credit for.

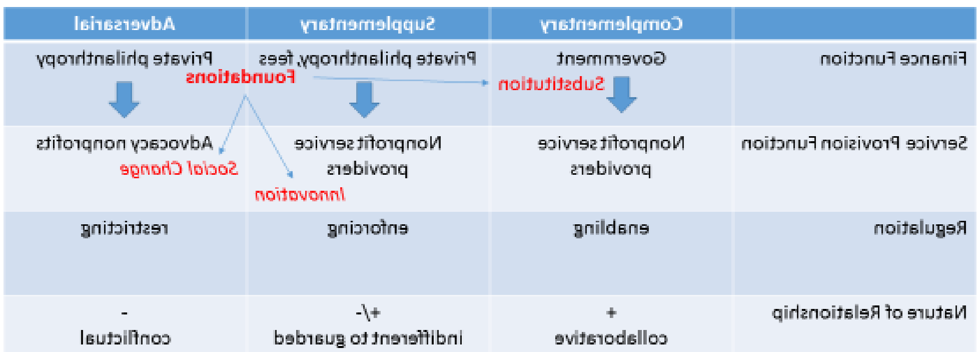
Often mistakenly perceived as resource independent, foundations have nevertheless a fairly significant level of independence. As asset-based institutions, they are typically able to self-generate the economic resources they need for their programs and these resources are essentially unrestricted -- within the bounds of the charter.

As such, foundations have no external constituents - no clients, no owners, no voters, no members - to take them to account. This lack of direct accountability provides foundations with the opportunity to be flexible and to take risk without fear of punishment. Which makes them the ideal structures to pursue innovation, or so the argument goes..

The second core function is Funding Intermediation. One of the principal policy interests is that foundations increase the amount of private resources available for public purposes. Foundation funding can either have a supplementary or a substitutional function.

Supplementary funding takes place where government cannot garner sufficient public support to directly address certain issues or faces constitutional or other barriers to doing so. This argument of course closely aligns with Young's general supplementary model.
In the foundation discourse, the terms supplementary and complementary are used interchangeably, but substitution is less ingrained in the general conceptions of government/nonprofit relations.

Substitutional funding, then, takes place where governments attempt to cut existing subsidies in hopes of foundations stepping in to fill emerging funding gaps. Needless to point out, substitution is a role that the foundation field has long and strenuously rejected as much as supplementation was embraced. Still we'd need to fit it into the schema and it should go into the complementary model, I think:



	Complementary	Supplementary	Adversarial
Finance Function	Government Substitution	Private philanthropy, fees Foundations	Private philanthropy
Service Provision Function	Nonprofit service providers	Nonprofit service providers Innovation	Advocacy nonprofits Social Change
Regulation	enabling	enforcing	restricting
Nature of Relationship	+ collaborative	+/- indifferent to guarded	- conflictual

Their supplementary nature was a cornerstone of the arguments in favor of foundations during the contentious debates of 1960s. The 1965 Treasury Department assessment of the foundation field allowed for a "vital role" in "providing for areas into which government cannot or should not advance" (Treasury Department 1965, 13). Likewise, the Petersen Commission, suggested that a diversion of funds from the treasury (e.g., tax exemption) is "strongly justified when private philanthropic money is used, not as a substitute for tax dollars, but as a supplement of a special kind that serves the public interest in ways in which the government itself is under various operational constraints" (Commission on Foundations and Private Philanthropy 1970, 15).

For the first, near 100 years of their history, we can note that philanthropic foundations and the government had settled into the supplementary model with periodic tilts into an adversarial mode.

And this, essentially remained the state of play until the very recent past, when several developments called the status quo into question. One of these was the 2007 financial crisis, which took a significant toll on local and state governments, that began to call on foundations to step in and help fill emerging funding gaps. In one of the most interesting deals, a coalition of foundations agreed to pay hundreds of millions of dollars to the pension fund of near bankrupt Detroit in a grand bargain to prevent the collection of the Detroit Institute of Art from being auctioned off to replenish the pension fund. In this and many more cases, foundations were being pushed and prodded from supplementary funding roles towards assuming substitutional responsibilities: replenishing a municipal pension fund is not traditional philanthropic undertaking

Another development was the election of President Obama in 2008, which caused a lot of hope … within the foundation community:

Obama had been a long-term board member of the Joyce Foundation in Chicago, so there was finally a president who actually understood foundations. Moreover, the new president had a keen interest in effectiveness and results-orientation in public program delivery, in social entrepreneurship and in fostering cross-sector collaborations.

There was, in a word, finally an opportunity to redefine the government foundation relationship in a way that would solve the foundation field's greatest challenge: the problem of scale. Foundation resources are limited. Focusing on identifying innovation is good, but then what?

With Obama's presidency, would foundations finally find a government receptive to their suggestions *__and__* be willing to provide the resources to take them to scale?

Public/Philanthropic Partnership quickly became the new buzz word in the field.

To illustrate how this turned out, I want to briefly discuss two signature programs of the Obama administration: the social innovation fund and the education departments investing in innovation program, i3 for short, as examples.

Launched in April 2009, ***The Social Innovation Fund*** Is one of the Obama's most prominent programs seeking to directly engage grantmakers in collaborations.

The basic objective of the Fund is the identification of promising, innovative projects that are evidence-based (meaning having measurable outcomes) in the three focal areas of economic opportunity, health and youth development.

Operationally, the SIF selects a limited number of private intermediaries, which receive annual funding allocations between one and ten million dollars. These intermediaries must in turn match the federal award with their own funds and then hold funding competitions to identify and support nonprofits meeting the SIF's goals. Nonprofits must also match their grant with other support and agree to extensive evaluation requirements to increase the evidence-base of what works

Since its inception, the SIF received a total of $295 million in federal funds and $627.5 million in private matching funds, making 43 awards to intermediary grantmakers supporting 450 nonprofits, as of spring 2016.[1]

Naturally, the SIF has not gone without criticism Among the loudest critics was Paul Light, who said" I don't think SIF knows what social innovation is" (quot in Fessler, 2013).

A combination of highly rigorous evaluation requirements, significant fundraising requirements to meet matching goals and the need to deal with burdensome reporting requirements of the federal government favored replication of well-established programs of organizations with the

[1] http://www.nationalservice.gov/programs/social-innovation-fund/about-sif (accessed 11/27//2016)

organizational capacity to address these requirements over smaller and more innovative organizations who lacked such capacity (Foundation for a Healthy Kentucky, quot in Lester, 2015).

Interestingly, these problems also held true for the intermediaries as much as their grantees, as many foundations do not have the internal capacity or skills to oversee complex evaluation programs or are unused to having to comply with federal regulatory demands. Some foundation leaders considered the experience humbling to unsettling, as it demonstrated the constraining effects of their own funding requirements on grantees.

Although the SIF's intended impact on the field of philanthropy was to forge a new approach towards evidence-based grantmaking, some see the experience with the role reversal--grantors serving as grantees--as the more significant development and suggested that the innovation of the Social Innovation Fund lies less in the work produced by grantees on the ground, but in the innovative relationship between the federal government and participating grantmakers.

You may have noticed that I have so far carefully avoided using the term foundation, because, given these difficulties it is worth pointing out that few true foundations chose to compete to participate in the SIF because the costs involved (of additional staffing and rigorous evaluations) made this partnership approach less than viable for a majority of foundations.

SIF Intermediaries 2010-12

Foundations

- Foundation for a Healthy Kentucky
- Missouri Foundation for Health
- The Edna McConnell Clark Foundation
- The John A. Hartford Foundation
- U.S. Soccer Foundation

Non-Foundations

- AIDS United
- Jobs for the Future, Inc. - National Fund for Workforce Solutions
- Local Initiatives Support Corporation
- Mayor's Fund to Advance New York City
- New Profit Inc.
- REDF
- United Way of Greater Cincinnati
- Venture Philanthropy Partners
- Capital Impact Partners
- Corporation for Supportive Housing (SIF Classic)
- Mile High United Way
- United Way for Southeastern Michigan
- Capital Area United Way
- Greater Twin Cities United Way, in partnership with Generation Next
- GreenLight Fund

If we take a quick look at the intermediaries of the beginning rounds, we see two traditional grantmaking foundations – Edna Mcdonnel Clark and Hartford-- two grantmaking foundations that resulted from Blue Cross Blue Shield conversions, and one public foundation (US Soccer). public foundations do not carry any of the historical political baggage of private foundations and could justifiably be included in the non-foundations

SIF Intermediaries 2014-16

Foundations

- *AARP Foundation*
- Annie E. Casey Foundation
- *Boston Foundation*
- *Nebraska Children and Families Foundation*
- *Silicon Valley Community Foundation*

Non-Foundations

- Corporation for Supportive Housing
- Friends of the Children (FOTC)
- Green & Healthy Homes Initiative
- Harvard Kennedy School Government Performance Lab
- Institute for Child Success, Inc.
- Jobs for the Future, Inc. - Opportunity Works
- Local Initiatives Support Corporation
- Mayor's Fund to Advance New York City
- Methodist Healthcare Ministries of South Texas, Inc.
- National Council on Crime and Delinquency
- Nonprofit Finance Fund
- REDF
- Share Our Strength
- Sorenson Impact Center at the University of Utah's David Eccles School, in partnership with Social Finance, Inc.
- The North Carolina Partnership for Children, Inc.
- Third Sector Capital Partners, Inc.
- United Way of Central Indiana
- United Way of Greenville County
- United Way of Lane County
- United Way of Southeastern Michigan
- Youthprise

Then in the 2014 2016 funding rounds, we first note that none of the original 4 or 5 foundations chose to come back for more (when some of the participating non-foundations did) and that among the five participating foundations this time, there is only one private grantmakeig fdn: Annie E Casey.

From the private foundation perspective, "Obama's people got it wrong," as one knowledgeable observer opined.

Investing in Innovation (i3)

major foundations, however, were more willing to engage with the DOE's Investing in Innovation (i3) Fund, which focuses on taking successful educational practices to scale. Launched with an initial appropriation of $645 million in stimulus funds in 2010, the i3 program is much larger than the SIF; the fiscal 2015 appropriation was $123 million.

Restricted to schools or educational nonprofits partnering with them, the program was designed as a competitive grant program aiming at supporting the expansion or implementation of innovative practices with demonstrated impact on student achievement.

Funding decisions are made through a peer-review system based on recommendation metrics that are evidence rather than input focused. The peer review process produces a ranking of finalists, whose eligibility, however, is contingent on their ability to raise 5-15% in matching funds from philanthropic partners in the process (Smith and Petersen, 2011).

Large national foundations were involved in the design phase of the program and were able to mitigate provisions that were not acceptable to foundation partners. For example, the Department of Education had originally envisioned that foundations would contribute to a funding pool rather than choosing finalist projects on their own. The Dept would then have distributed the fdn funds to finalists in order of ranking (like a good govt program would do) which was of course a no go ...

Funders also insisted on not having applicants show evidence of a match before they applied, again to maintain at least a degree of flexibility and choice in their own involvement. To fix the resulting design problems, Leading foundations created a foundation registry in 2010, where finalists can identify participating foundations and apply for matching funds.

Eligibility restrictions and the nature of the peer review process, generated disappointment in the education field with the lack of truly innovative projects that the competition generated. Some funders share this assessment.

Uneasiness among funders derived largely from the fact that the development of funding priorities, the selection of winners, and even the funding cycle were controlled by the Department of Education rather than by themselves. As one grantmaker noted quite pointedly: “The structure of i3 flipped [the traditional operating paradigm of foundations] on its head. ‘Letting the private partners only partner on funding of already selected ideas does not seem like much of a partnership.' Still, the foundation registry contains some of the heaviest hitters: gates, ford, Casey, Mott, Annenberg, Carnegie, you name them.

Discussion and Conclusion

So what to make of this?

Discussion

- New rules of engagement
- i3 role reversal: government identifies innovation, foundations help scale it
- SIF: private funders at the right place, but capacity and cultural issues
- Liaison offices as potentially mitigating force

What these two initiatives indicate is that the rules of engagement (or disengagement) that have marked foundation/government relations over the past century appear to be changing. This is particularly so with regard to the innovation function and the federal government's social innovation agenda.

Both programs represent two divergent models of structuring the partnership with foundations and both proved difficult, albeit in different ways. The Department of Education's i3 program essentially took the innovation function away from participating foundations by designing a large-scale peer-review process rather than letting partners utilize their own strengths, knowledge and expertise in the education field.

In a reversal of the traditional conception of the division of labor, this effectively put foundations in a position to help scale “innovations” identified by the government, rather than the other way around

The SIF, in contrast, leaves the identification of innovation to intermediaries, which run the funding competitions and select grantees with the most promising approaches and solutions. The SIF is therefore broadly seen as the better model as it is better suited to utilize private philanthropy’s greater strength at the right place--the identification of innovative practices. Yet, while the SIF model may well be the blueprint for future programs of similar nature, it has in its current form not been conducive to engaging the philanthropic community very well.

Essentially, the lack of sufficient financial and technical capabilities restrict the number of private grantmakers capable of participating as much as concerns about autonomy and independence of decision-making have deterred them (Lester, 2015).

Strict regulations and funding guidelines also undercut the flexibility that private grantmakers value, leading one foundation leader to note that the compliance requirements were such that “she could not consider her relationship with the federal government a ‘partnership,’ [leaving her unsure whether] the ‘hassle and headache’ had been ‘worth it’” (Abramson, Soskis and Toepler, 2012).

So, reviewing these two key programs leaves one wondering about the prospects for a truly collaborative relationship between foundations and the government. In a way, it feels like an opportunity lost from a philanthropic perspective. But then again, these two programs, even though prominent, do not necessarily represent the whole breath of federal partnership projects that have emerged in recent years.

In what may be a more heartening development, recent years have also seen a proliferation of liaison and partnership offices across the federal government. In theory, a key function of these offices is to bridge the cultural divide between the two sectors that derives from prevailing misconceptions and a lack of knowledge and information about each other.

Whereas foundation leaders may not appreciate the political and bureaucratic constraints and time horizons that government officials are subject to, the latter overwhelmingly appear to have little to no understanding of how foundations operate or any conceptions of the roles, strengths and relative weaknesses of their philanthropic partners.

In this, liaison offices have the potential to advocate for role-appropriate relationship development within the public sector, but also have to fend off the perception that foundations are no more than ATM machines for the pet projects of government departments.

In practice, however, the latter proves to be a veritable challenge. As one interviewee brought it to the point:

"I would love to say that we look to foundations to provide us with best practices or things that they have done on small-scale and that we are then able to bring to scale and build them into larger programs. I would love to say that we are not out fundraising among foundations, but …..

I don't like to lie.

Our outreach to foundations is often, sadly, around us coming up with an idea and then trying to find someone else who is willing to put resources towards it. I think we can be better strategic partners if we are co-designing projects with the foundation community: a lot of work needs to be done in that vein."

We note here that this interviewee has been doing this for a very long time and understands full well how it ought to be done, while acknowledging that that is not the way it works out in practice.

Another interviewee realized that something was wrong because private funders were not willing to step up to the plate, she …

Federal Liaison II

Got involved in PPP networks "because two or three years ago the agencies started to see their funding dwindle and they became concerned about the future of the initiatives they had been funding ... They were not successful in finding others who would pick up the initiatives.

She thought they should have started earlier and brought in people from the outside at the peak of the program's activity. They then could see what was going on and what they might want to help advance."

But she didn't quite fully get the real problem with the approach
Coming in to fund preconceived government projects, programs, or policies is not likely to be warmly embraced by the foundation community.

As this suggests, however, now that the government's interest in public/philanthropic partnerships is roused, foundations may well be in for a long period of growing expectations for them to slip more into a substitution role.

Either way, the traditional division of labor will give way to a new, still undefined paradigm. The search for a new modus operandi involves role confusion, cultural differences, political exposures and concerns about the capacity of foundations (Abramson, Soskis, and Toepler, 2012). Rethinking foundation roles and especially a more careful articulation of how foundations can retain their innovative edge and maintain their comparative advantages seems advisable.

At the same time, policy makers not being sufficiently cognizable of traditional foundation roles, advantages and limitations can also undermine the still emerging relationships. How much of an opportunity public-philanthropic partnerships are … thus remains an open question. Like in all other kinds of government-nonprofit relationships, there is still a lot of work to do in understanding where the proper balance ought to lie.

I think it is fair to say that Obama moved something, but what and in which direction is not quite clear. His record in this is somewhat mixed. There are things that he could've done to advance the issue of philanthropic partnership further and ingrain it even more deeply within the federal bureaucracy, but didn't … The top two recommendations from the wish list of our interviewees were

1. To issue an exec order/OMB guidance to establish formal authority for partnership offices across the government to break the resistance of GCs, and to embed their work into departmental policies
2. To establish wH office not to out building partnerships itself, but to train, support and provide interagency coordination;

both would have helped these offices in battling both leadership and rank and file on the expectation that their task is to find private funds for departmental wishlists.

Well, Obama didn't do it, and now we have Trump. What will the Trump administration do with all of this? The substitution function, collecting private monies to pay for public priorities, surely looks like a good deal. It has looked like that to local and state leaders for some time now, but they don't have any leverage over foundations. The federal government, however, does ...