How foundations saved the city of Detroit

BY JOHN HORAK

1/15/2018

John Horak

The financial predicaments facing the state and Hartford came to mind as I was reading about how Detroit resolved its financial predicament (and 2013 bankruptcy) with the assistance of $366 million from grantmaking charitable foundations.

There is a critical mass of foundations in Connecticut — and I wondered if there were lessons to be learned from what happened in Detroit that could be applied here to produce similarly positive structural results?

In Detroit, the foundations led and encouraged stakeholders (unions and the state of Michigan) to join them at the bankruptcy bargaining table and helped raise an aggregate $850 million ($366 million from the foundations) to settle the city's pension obligations and to save its art collection. Foundations also assisted with basic needs by paying for police cars and the like.

The deal enabled Detroit's rebirth and is known as the "Grand Bargain" because of the enormous public return on investment it provided. Interestingly, foundations provided $628 million of funding in Detroit between 2007 and 2011, a fact I'll come back to shortly.

According to the Connecticut Council on Philanthropy, in 2014 our foundations held $12.2 billion (in endowment) and distributed $ 1.01 billion (this does not include $3.48 billion of individual giving). Under the law foundations have considerable discretion when deciding what to support, permitting everything from poverty relief to "lessening the burdens of government."

Some assets are restricted, but there is discretion within restricted fields and broad discretion over the balance. These amounts seem large enough to make a structural difference if well deployed.

My search for lessons from the Grand Bargain took me to the point of conversations with current and former Connecticut foundation leaders, and with Phillip Wm. Fisher (coincidently, a University of Hartford graduate), the chairman of The Max M. & Marjorie S. Fisher Foundation in Detroit and founder and CEO of Mission Throttle, a social impact strategy firm. At the end of my work, I concluded that there are lessons to be learned from Detroit.

First, there are voices who suggest there is not much to learn from the Grand Bargain because it was a "one-off deal" that produced an enormous return only because the stars were aligned uniquely: a critical mass of Detroit foundation wealth, an especially competent bankruptcy judge, etc.

I disagree. The Grand Bargain paid extraordinary dividends because of the hardball business acumen with which it was deployed: The foundations put money in only after union concessions and an exit from bankruptcy was attainable.

Compare the different returns on the $628 million of foundation funding in Detroit between 2007 and 2011, and the $366 million invested in the Grand Bargain.

Second, I ran into a surprising amount of defensiveness among foundation representatives when I raised these questions. They were quick to respond with a robust list of the many good causes they fund — but that's not the point.

The point is that "goodness and worthiness" are not metrics by which structural effectiveness is measured, and if the goal is to "fix" social problems, a system of metrics is necessary to determine what works and what does not, in order to guide future grant decisions for maximum impact (not unlike the way business investment decisions are made).

No one will disapprove of grants to feed poor children (an admirable charitable use of funds that is easy to measure), but the foundations taking on these tasks should be candid about the follow-up question: Will the funded programs lessen the likelihood of the children's children ending up in the same food line in a few years?

Finally, Phillip Fisher offered some general comments to the effect that the philanthropic sector is not producing the structural results of which it is capable, and that better results will follow if some capitalist thinking is added to the recipe.

Capitalism has two strengths: its rigorous decision-making (business acumen and metrics), and its ability to create new wealth where it is most needed (foundations can support economic development).

For more on this thinking check the website of Mr. Fisher's Mission Throttle, or an article in the Dec. 5 edition of the Chronicle of Philanthropy ("How New Forms of Philanthropy are squeezing Traditional Charities") in which Benjamin Jealous (former head of the NAACP and now a venture capitalist) is quoted as follows: "Grant Makers can point to few victories. Social problems remain as vexing as ever."

My perspective is this: Our foundations are the fruit of capitalism — the value of their massive tax favored endowments rises and falls with capital markets, and the more capitalist market success the more money the foundations have to pursue philanthropy. Capitalism and philanthropy can work together that way.

I recognize that many foundation-supported causes deliver meaningfully on their promises. But when you look at the state of the state (and its inner cities), and the capacity of our foundations, it's reasonable for us to ask if the tax-favored wealth in their endowments is delivering as much of a bang for the buck as was promised.

John M. Horak is the director of TANGO Nonprofit Education and Consulting.