

# Community Foundations and the Compound Republic

by Olivier Zunz

There are many obstacles plaguing the recent public-private partnerships that have formed in response to Detroit's imminent bankruptcy, but it is hard to imagine a place more in need of such coalition than that beleaguered city. Such engagement may also help to pull local donors out of their special areas of focus and into the larger arena of public policy issues.

**Editors' note:** On the one-hundredth anniversary of the first community foundation, Olivier Zunz, author of *Philanthropy in America: A History* (Princeton University Press, 2012), looks at the unique value a community foundation can bring to a troubled locality, and uses the example of Detroit to discuss how a community foundation can activate citizen-fueled change with much more power than the sum of its parts would suggest.

IT IS DIFFICULT TO IMAGINE A PLACE WHERE a community foundation or other locally committed philanthropic institutions might be needed more than in bankrupt Detroit, where despair and municipal dysfunction abound. A collapsed local government is only the most obviously broken link in the chain of intertwined state-civil society organizations. As a result, although the efforts of the community foundation and other foundations have been nothing short of exceptional, it is clear that philanthropy alone is not a substitute for a mixed political economy that combines public and private funds for the common good. Much depends on creative partnerships between governments and the nonprofit sector.

## A History of the Community Foundation

This difficult situation contrasts with the role of community foundations in the

years immediately following Frederick H. Goff's establishment of the first such institution, the Cleveland Foundation, in 1914. A century ago, Cleveland had a prosperous and growing middle class to support the new institution; in today's Detroit, the middle class has fled a city where violence and poverty abound.

It is not so surprising that a Cleveland banker and attorney was the first to come up with the idea of a community foundation. Cleveland was then steeped in philanthropy. It was home to the Rockefellers, as well as the birthplace, in 1913, of the first community trust—the forerunner of the United Way. Goff himself had worked as an attorney for the Rockefellers, and his wife had served on the community trust's founding committee. But Goff imagined something new: an institution that targeted midlevel fortunes. Advising his clients on how to write their wills, he suggested they designate

as the beneficiaries of their estates not “mankind,” as the Rockefellers had done, but their immediate community. Community foundations have often competed with institutions of mass philanthropy for dollars from very modest donors, and they have also solicited extremely large gifts, but they have remained focused on middle-class donors committed to supporting their locality.

Originally, community foundations had limited goals and operated independently of government, but as they grew the federal government took notice. In the “associative state” of his years as secretary of commerce, Herbert Hoover was first to try to integrate the efforts of self-financing local voluntary organizations with government agencies—and then, in his ill-fated attempt as president, to enlist private philanthropy in containing the Great Depression. Community foundations obviously lost many

of their assets after the stock market crash, and even if they had not, they would not have been equal to the challenges of the Depression.

President Franklin D. Roosevelt and his “relief czar,” Harry Hopkins, took a completely different approach, insisting on full autonomy for the federal government to distribute its own resources across the country and, to that end, excluding much of civil society from New Deal federal-state relations. Hopkins and FDR enforced a separation between public and private spheres that continued to prevail in the postwar period. But in the Great Society programs of the 1960s, President Lyndon B. Johnson re-created a public-private partnership by injecting massive amounts of federal funds into nonprofits at the local level. His mixed political economy survived the Reagan era of federal retrenchment, and it could be said that then-President George W. Bush was putting a new face on the Great Society when his faith-based initiative invested federal dollars in the heart of American voluntarism on behalf of compassionate conservatism. But this was most likely the last gasp. The Great Society paradigm is effectively dead, and the time has come to reinvent the “compound republic,” as James Madison once called it—a task where community foundations have an important role to play.

### Drifting from Goff's Dream

This task may involve reimagining the community foundation. Community foundations as Goff conceived of them were premised on a vital urban middle class living within the community's political boundaries. This assumption made sense in his day; Cleveland's city limits and its population were expanding, and its urban middle class sought reform and beautification. But by the 1920s,

sociologists and statisticians began documenting the shift to the metropolitan community. By 1970, most Americans had moved to the suburbs, even though they still commuted to work in a nearby city. By 1990, most Americans not only lived but also worked in the suburbs, losing their significant connection to their cities' cores.

This metropolitan fragmentation has posed a challenge to community foundations. Some have transformed themselves into suburban entities. Others have adapted to the regional scale. In 1986, the Detroit Community Fund (dating from 1915) joined the seven-county Community Foundation for Southeast Michigan (CFSEM), created in 1984, so as to maintain its ability to reach a middle-class funding base.

Another issue is one of governance. Goff wanted to give the community foundation full ability to respond to current needs. He made it clear that he was worried about the “dead hand” of the donor. Decision making in the new institution, he insisted, rested with a representative committee of citizens. As he explained it to the Walsh Commission on Industrial Relations investigating the Rockefellers in 1915, “[D]onors may indicate a desire for a certain period of time to have the income from their trusts expended in a certain way, but there is lodged with the committee on distribution the power to do otherwise should it see fit.”<sup>1</sup>

This was a very important part of Goff's program. His sense of an elite local leadership that could speak in the community's name, however, was already unrealistic during the period of rapid industrialization and mass immigration in which the Cleveland Foundation was formed. It has become even more elusive today, and the big question of how to formulate policies for the common good never ceases to resurface.

### Making It Work in Detroit

All these challenges come to play in Detroit, which ironically was one of the first cities to benefit from a public-private partnership. In 1931, Detroit had already come dangerously close to defaulting. Mayor Frank Murphy assigned responsibility for the city's welfare problem to Henry Ford. The company paid no Detroit taxes because its Rouge plant was outside the city limits, but its laid-off workers were clogging the welfare rolls. After Henry Ford came to the rescue at the very last minute with a low-interest loan, Murphy went to Washington and convinced the federal government to complete the rescue of the city. This Hoover did in creating the Reconstruction Finance Corporation, and Detroit became the first city recipient of a federal grant initially channeled through the state, initiating a lasting federal commitment to local affairs. But we are now in the days of sequestration, and the few calls for federal intervention have fallen on deaf ears.

The current response to financial collapse, which significantly preceded the city's requesting a bankruptcy court, has been a massive mobilization of the local philanthropic sector consisting of the Community Foundation for Southeast Michigan, large independent foundations that include Ford, Kresge, and W.K. Kellogg, and smaller local foundations. Out of this partnership has come an impressively large \$100 million New Economy Initiative devoted to training young entrepreneurs throughout the region. The community foundation contributes to this fund and administers it. It is also heavily invested in parks, trails, and bicycle rides, a challenging enterprise in a low-density city with about eighty thousand abandoned buildings and a huge amount of garbage-filled abandoned land.

The Kresge Foundation took the lead in funding, in partnership with other foundations, a strategic framework for

Detroit's redevelopment. In contrast to the Regional Survey and Plan for New York that the Russell Sage Foundation conducted in the 1920s with experts and professionals, Detroit Future City solicited the views of over one hundred and sixty thousand ordinary citizens in the planning process. The same philanthropic actors are launching with business leaders a rail system (heretofore unheard of in the Motor City) in the hope of revitalizing the midtown area. They break ground this year after orchestrating eight different pieces of legislation. Still other local donors, like the Skillman Foundation, underwrite not business development but neighborhoods and schools in the absence of a strong local government presence. All this tremendous work is the outcome of strategic philanthropy, but it will only be effective in the long term if it is a prelude to a new mix of private and public efforts.

New partnerships between the state government and nonprofits are becoming reality in the tense and controverted atmosphere of lifting Detroit out of bankruptcy. In late January 2014, Michigan Governor Rick Snyder asked the state legislature to match an unprecedented financial pledge from a consortium of nine large foundations (with Michigan ties) designed to help save both city-owned art from the Detroit Institute of Arts and the city's pension plan. The deal, between the state, the city, the foundations, the museum, several unions, and city retirees, locally known as the "grand bargain," has now been approved by all concerned parties save city bondholders. If finalized in bankruptcy court this fall, it will protect the city-owned masterpieces from ever being put on the market for sale and simultaneously provide the city with needed cash to avoid drastic cuts to the pensions of Detroit retirees.<sup>2</sup>

In addition to partnering with other nonprofits, the community foundation has special potential for finding new synergies in addressing the crisis. The community foundation is by design in contact with donors from all walks of life. Its challenge is in fostering a continuing and strong sense of civic engagement among them.

CFSEM currently administers over four hundred donor-advised funds ranging in size from just a few thousand dollars to millions. At CFSEM, the annual payout from these funds is about 18 percent.<sup>3</sup> Donor-advised funds have been around since the 1930s, but have exploded in recent years. They have been hailed as great tools for donors' investment in the charity of their choice, and many community foundations have lowered the bar to facilitate entry into their pool of such funds.

Critics point out that donor-advised funds are also used for dumping unwanted assets in exchange for an immediate tax deduction. They complain about delayed charitable payments, some calculated to create rainy-day funds or charitable activities for donors' children. These criticisms are reminiscent of those the Treasury Department leveled against family foundations in the 1960s, and were a big part of the tax revisions of 1969.

### The Need for Policy Engagement

Despite these obstacles, I see these funds as an opportunity for philanthropy professionals to involve an active citizenry in major policy debates. Troubling to me are the results of an older survey of all community foundations in the Chicago metropolitan region that Kirsten A. Grønbjerg of Indiana University conducted in the mid-1990s.<sup>4</sup> She reported the puzzling fact that most small donors showed little awareness of larger policy issues, or else they

were reluctant to talk about them. They would rather focus on their special area of giving. That was, of course, at a time when the older, mixed political economy still held sway. But the current need to reinvent it is surely putting an end to this narrow perspective.

Community foundations as public charities should imaginatively do all they can to bring their donors into the fold of large public debates over our future. In Detroit, they cannot look the other way.

### NOTES

1. Commission on Industrial Relations, Final Report and Testimony, S. Rep. No. 64-415, at 8111 (1916).
2. For more on Detroit's "grand bargain," see Rick Cohen, "The Foundation Tally of Detroit's Unprecedented Grand Bargain," *NPQ*, July 7, 2014, [nonprofitquarterly.org/philanthropy/24460-the-foundation-tally-of-detroit-s-unprecedented-grand-bargain.html](http://nonprofitquarterly.org/philanthropy/24460-the-foundation-tally-of-detroit-s-unprecedented-grand-bargain.html), and "Two Qualms regarding Detroit's 'Creative Solution,'" *NPQ*, November 18, 2013, [nonprofitquarterly.org/policysocial-context/23252-two-qualms-regarding-detroit-s-creative-solution.html](http://nonprofitquarterly.org/policysocial-context/23252-two-qualms-regarding-detroit-s-creative-solution.html).
3. As per written communication from CFSEM to the author on July 2014.
4. Kirsten A. Grønbjerg, "Foundation Legitimacy at the Community Level in the United States," in *The Legitimacy of Philanthropic Foundations: United States and European Perspectives*, Kenneth Prewitt et al., eds. (New York: Russell Sage Foundation, 2006), 163.

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