



Commentary/Op-Ed - February 2002

## Building the Right Foundation

Consultant David Hochman examines why New York City's foundations have funded antipoverty programs to the exclusion of other worthwhile efforts.

by David Hochman

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New York's foundations have a poverty fixation--and if we don't watch out, it's going to make the whole city poor.

If you're looking to help the needy, whether in Brooklyn or Bosnia, New York is the place to go for grants. Our foundations hand out hundreds of millions of dollars each year to help the hungry, homeless and ill. But just try to get those same foundations to help strengthen the city's economy--and thereby improve the standard of living for millions in New York--and watch those purses snap shut.

Elsewhere in America, foundations are playing increasingly creative and important roles in building the overall economic health--and wealth--of their home regions, in large measure by supporting and promoting technology-led economic growth. But this movement has gained no traction in New York--to the detriment of the entire citizenry, including those populations that foundations most want to help.

Part of the problem is that the lion's share of our foundations are not especially interested in New York. In philanthropy, as in so many other fields, we are both blessed and cursed to be home base to some of the world's largest, smartest and best-known institutions. Precisely because they are opinion-leaders and standard-setters, Ford, Rockefeller and their peers focus on national and global questions of poverty, nutrition, health and community empowerment.

These good works may have an impact on the city from time to time--in part because our toughest neighborhoods present some of the most challenging settings in which to test new ideas--but local outcomes remain very much incidental to these foundations' overarching goals. The programs of these foundations are not, by design, focused on the specific economic needs of our city. The last time the Ford Foundation generated ideas it considered parochial in this sense, it spun them off,

creating the Fund for the City of New York in 1968.

At the other end of the spectrum are New York's smaller, regionally oriented foundations, which also are geared toward fighting poverty, but at the local level. They often accomplish great things within their targeted communities, but they do so outside of the broader economic context, and without a blueprint for continuing to build wealth and economic stability over the long haul. What's missing is something in the middle: Private, regional foundations that understand that improving the city's overall economic vitality is integral to fighting poverty, and therefore to their missions.

Most specifically, we lack foundations that see it as their mandate to help connect New York City's economy--which is, after all, as large as those of many states--to the enormously powerful and fast-moving technological forces that are creating, destroying and redistributing wealth, companies and employment opportunities on a worldwide scale.

In the two decades since the "rust-belt recession" of 1980, a consensus has emerged among economists and policy analysts that technology is what differentiates fast-growing regions (which provide broad-based economic opportunity) from stagnant ones. In this context, technology means not just dot-coms, but a range of manufacturing and service businesses in sectors including communications hardware, biotechnology (whether medical or agricultural), energy and environmental technology, medical devices and advanced materials and manufacturing processes.

Many states, including New York, have re-balanced their economic-development agencies and budgets to de-emphasize "smokestack" chasing and focus more on what is now commonly called "technology-led economic development."

While there will always be some dispute over how much technology-led economic development serves the short-term interests of the poor and undereducated, civic leaders in many metropolitan regions--particularly those that have lost substantial portions of their populations in the transition to a postindustrial economy, such as Cleveland, Pittsburgh and St. Louis--have concluded they have few other options if they want to generate the economic resources necessary for community empowerment of a meaningful and lasting kind. Still, this concept remains foggy in New York.

Here, I blame the size and scale of our leading economic institutions. Why work to create a vibrant technology sector when global giants in finance and media have carried the burden of economic growth so well? Well, in the post-September 11 world, that picture has changed. The very sectors on which we have relied most heavily are dispersing to lower-cost and less-prominent locations, just as manufacturing and corporate headquarters did in generations preceding. What will we do now?

We already have a number of quality institutions poised to contribute to a broader technological-development blueprint. One is the Sloan Foundation, a national foundation interested in science and industrial sectors, with a civic program that sees universities as sources of employment training in fields affected by technological change. A second is SEEDCO (another Ford spin-off, created as a national not-for-profit organization in 1986), which focuses on universities and hospitals both as large employers and as paths for economic mobility within a given community. A third is the Community Development Venture Capital Alliance, which helps attract funds oriented toward inner-city development, but which does not focus specifically either on technology or on New York.

However, not one of these fine organizations sees promoting technology-based development here in the city as part of its mandate. None sees the city's many universities and research institutes as sources of technology that can be developed into commercial products right here in our region, through the kinds of startup enterprises that characterize vibrant, fast-growing communities such as Silicon Valley and San Diego in California, Route 128 in Massachusetts, and Research Triangle in North Carolina (areas not without social problems, but with the wherewithal to address them).

By contrast, promoting a broad agenda of tech-based economic development has become one of the key missions of many regional foundations outside of New York--not only in declining areas such as Cleveland, but also in fast-growing metro areas such as Atlanta and Minneapolis-St. Paul. These foundations grasp that one very important way in which they can serve their charitable purposes is to help build and support connections among civic leaders, generators of technology such as

universities and hospitals, sources of public, private and institutional capital for business development, and state-government programs for research and technology commercialization.

It may seem odd to suggest that private regional foundations play such a strong role in setting and promoting a broad public agenda, but they are actually well-situated to the task. Unlike government officials or agencies, which are vulnerable to political pressures, or business intermediaries, which don't have the money to put vision into action, private foundations have the autonomy--and the money--to get the job done.

I know this because last year I directed a project for the Battelle Memorial Institute, funded by the Danforth Foundation of St. Louis, that examined exactly this question: How do (and should) foundations participate in regional strategies for technology-led economic growth? Danforth wanted to know because it had committed to participating in the region's civic strategy to become a global center for bringing discoveries in the plant and life sciences to market (capitalizing on the research base of the Monsanto Co. and Washington University, among others).

Here's what we found out.

First, we discovered that many foundations are active participants in regional dialogues on technology's economic potential. For example, following Cleveland's default in 1979, the Cleveland Foundation and the George Gund Foundation created a regionally focused economic-research institute (an asset that New York still lacks) at Case Western Reserve University. Both foundations went on to support specific elements of the resulting sector-based economic development strategy, which embraces everything from traditional industries to advanced technology and biomedicine--areas that were identified as vital to the region's future growth prospects.

In Atlanta, the Robert Woodruff Foundation was the first private-sector entity to respond in 1990 to the state's call for ideas about hitching Georgia's economic strategy to technology. Woodruff provided the seed money for the Georgia Research Alliance, a public/private partnership now widely credited with Georgia's dramatic gain (in some measure at New York's expense) in share of federal biomedical-research funding. Woodruff then made a series of targeted grants to Georgia Tech and Emory in the same spirit. In Kansas City, Missouri, the Hall Family Foundation and the Ewing Marion Kaufman Foundations funded the early stages of the Kansas City Life Sciences Institute, an entity with very similar aims.

Second, we found foundations stretching their criteria for higher-education grants beyond the traditional context of expanding educational opportunity and equity. For example, the Lilly Endowment, long known for its generous support of religious and community causes in Indiana, made a \$30 million grant to the Rose Hulman Institute of Technology for a building that included a technology-business incubator, and a \$105 million grant to Indiana University for genomics research. These were justified as part of the effort to keep skilled college graduates in-state, but they were also quietly coordinated with a larger technology-based development strategy, both in Indianapolis and statewide. Many foundations already mentioned have also made major grants for research-and-development infrastructure or "technology transfer" programs in their home communities, in sympathy with regional economic-development strategies.

Third, we saw innovative uses of program-related investments (PRIs), a mechanism developed mainly by two national foundations: Ford here in New York and MacArthur in Chicago. These are investments made by a private foundation, usually at a reduced rate of return, that advance the foundation's charitable goals. Originally designed as a way to funnel money to community development corporations charged with building physical infrastructure, program-related investments have now been redefined by many foundations to include economic and intellectual infrastructure. For example, we saw PRIs used in Pittsburgh by the McCune Foundation to help Carnegie Mellon commercialize software it had developed; in Cleveland, by the Cleveland Foundation, to help the state-sponsored biotech center launch a seed-stage venture-capital investment fund; and by the Blandin Foundation of Grand Rapids, Minnesota, to help "plant" spin-off technology ventures from the Mayo Clinic in rural Minnesota.

Finally, we saw foundations investing portions of their endowments to advance regional economic-development goals as well as to produce returns to fund their charitable programs. For example, the Abell Foundation of Baltimore operates a \$30 million "internal venture fund" that operates somewhat like a community-development venture-capital fund, and has funded technology startups in Baltimore City. In North Carolina, the national Burroughs Wellcome Fund joined institutional investors such as Bank of America by placing \$3 million of its endowment in the North Carolina Bioscience Fund, a private investment partnership in which the state has also made a significant investment as an economic-development thrust.

In Pittsburgh, the Claude Benedum Foundation has made investments in six private-equity partnerships that specifically target ventures in the Pittsburgh region. And the Heinz Endowments committed investment funds to a joint venture of four area foundations (three others participating via PRIs) to buy an abandoned steel mill from the bankrupt LTV Corporation and hold it patiently pending high-value development—such as possibly a third university-related research park for Pittsburgh (New York has one, so far).

Regional foundations such as Danforth and its peers have most often been the ones to draw explicit ties between their philanthropic goals and a community's overall wealth as determined by its technology capacity, although a few of these innovative programs are housed in national foundations as well. But in New York, with all its resources, no one at any level has proven both willing and able to embrace this idea.

What can we do about it? In Cleveland, a group of affluent people who understood the problem got together and formed the Generation Foundation, a public charity that works in concert with regional private and community foundations in an effort to address this need. In New York, we can at least begin to shift the terms of the dialogue and encourage our many foundations to start considering not only what to do about existing poverty, but also what it will take, both now and in the future, for the city they call home to generate prosperity.

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