

Linkages

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A Tale of Three Cities

By Bruce Sievers

***Editor's Note:** Any time Bruce Sievers, a Senior Fellow of Rockefeller Philanthropy Advisors, decides to write or speak on the issues facing the field of philanthropy and the nonprofit sector, it's always worth reading or listening. What follows are highlights of the keynote speech he presented on March 21 at the annual meeting of the California Association of Nonprofits (CAN). As always with Bruce, it is a speech rich with historical context, commentary on current trends and practices, and some advice for moving forward. We hope you find it informative and thought-provoking.*

It was the best of times; it was the worst of times..." So begins Dickens' great novel about one of the most tumultuous periods in human history. It was a time of enormous contrasts—between rich and poor, well-being and misery, and political privilege and powerlessness. Today we face similar contrasts in the world: on the one hand, we have colossal economic productivity, technologies that can maneuver vehicles on Mars and cure cancer, democracy at work in Chile and Liberia, information networks spread around the world; and, on the other hand, a growing chasm everywhere between the well-off and the poverty-stricken, pandemics like AIDS and quite possibly bird flu, corruption as a way of life in almost all political systems, environmental destruction on a global scale, and terrorism and violence enhanced with ever more powerful and insidious weapons.

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I don't think it is overreaching to say that for us at least part of the answer, if there is an answer, lies in civil society.

So I want to address three points in this speech: first, what is unique about civil society that allows us to ad-

dress these problems; second, why civil society needs to be defended against threatening incursions by the market and the state; and third, what we need to do together—getting outside our organizational boxes—to make this happen.

Historical Background

First, it's important to get at least a brief sense of how we got to where we are today. Quick historical note: In the past several hundred years, we have gradually developed, at least in the western world, a tripartite system that consists of the market, the state, and this third thing—often called the third or nonprofit or NGO sector—but what I refer to here as "civil society."

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How these three sectors emerged is a fascinating story, and one which would take far more time to tell than this speech allows. For this speech, I'd like to focus on the modern step that took place beginning around 1500, when dramatic transformations began to occur in religious, economic, and political life.

It goes something like this: as the church became separated from the state, contrasting religious belief systems began to compete with one another, leading to the rise of a vibrant arena of ideas and associations dedicated to personal and social improvement. The market economy emerged at the same time as a productive engine of prosperity operating according to its own rules. And the state became an independent sphere of power subject to gradually increasing pressures for popular rule. A fascinating side-story to this developmental process is the odyssey of a tiny country

that stands as a microcosm of this evolution and has had an enormous impact on the future course of social development: the Dutch Republic of the 17th century—which I suggest can be described as the “first civil society.”

Even a cursory look at this historical background reveals that there is something identifiable and coherent called civil society that emerged as a powerful force in the shaping of modern social life. By the time of the later Enlightenment in the 18th century this sphere became widely dispersed as an essential part of the emerging modern democratic state. Most familiar to us is Tocqueville’s admiring description of the central role this sphere plays in the new American democracy. Somewhat lesser known is the key ruling in the same era by Justice Marshall’s Supreme Court in the Dartmouth College case which definitively establishes the independent rights of private associations in the United States.

I am stressing this historical development because it is so important to show how civil society (or the nonprofit sector) is more than just a collection of organizations that the

tax law describes as “nonprofit.” It is a sector that rests on a foundation of key values—individual rights, tolerance, and the common good—and broad institutional structures—a system of law, a system of free expression, philanthropic institutions, and voluntary organizations—that evolved through a long historical process. Another way of saying this is that the nonprofit organizations that we sometimes think of as equivalent to the nonprofit sector are actually entities that populate civil society, i.e., they live in a broader realm of values and institutional life.

The Market and the State

Now, why is civil society so important? Although the term has been used since the 18th century, it actually didn’t come into broad international circulation until the late 1980s and then largely as employed by the democracy movements in Eastern Europe. And, as the historian Peter Dobkin Hall has pointed out, even the term “non-profit sector” has only come into general use since the early 1970s, when it surfaced as a defensive term resulting from the Filer Commission Report. But the sphere of society that performs the important civil society functions has played a vital role over the entire modern period and more than ever today.

Why more than ever today? The reasons have to do with the essential distinctions among the market, the state, and civil society, and especially the importance of an independent civil society.

Some would argue that this three-sector distinction is outmoded and that the important thing is to solve social problems whatever way works best, regardless of “sector.” There are colleagues of mine who maintain that the sectors are becoming blurred in any event and that we should accept the inevitability of this process. I want to lay out the reasons why I think these arguments are wrong.

First, let’s look at the function of the first “city”: the market. While much has been written about the nature of market economies, the most comprehensive description I know of for the overall functioning of the for-profit sector comes from Charles Lindblom’s *The Market System*. Lindblom applauds the beneficial power of the market but also notes its drawbacks:

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He has published in academic journals in the field of political theory and in the Los Angeles Times and other journals on public affairs and philanthropy. His most recent publications are "Can Philanthropy Solve the Problems of Civil Society?", a monograph published by Indiana University Press, and "If Pigs Had Wings: the Appeals and Limits of Venture Philanthropy," a lecture delivered in Georgetown University's Waldemar A. Nielson Issues in Philanthropy Seminar series, and "Philanthropy's Blind Spots," in the book, Just Money (2005). He is currently an adjunct professor at the Institute for Nonprofit Organization Management at the University of San Francisco and a visiting scholar and lecturer at Stanford University.

[The market] can coordinate human behavior... with a range and a precision beyond that of any other system, institution, or social process. But it is a harsh and often cruel coordinator. . . It achieves extraordinary efficiency because it permits participants to make precise and calculated choices. But it is grossly inefficient because of the choices it has closed off.

He highlights the dominant value of the market system as quid pro quo exchange relationships driven by individual self-interest. He acknowledges the huge social benefits that result from this system in terms of productivity and material well-being. But he also observes its downside in terms of what economists call “negative externalities” and the failure to provide collective

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goods. The best summary statement I know of this point is Todd Sandler’s phrase, “individual rationality is not sufficient for collective rationality.”

It’s easy to point out market failures: the market’s role in global warming or the Enron debacle are two that immediately come to mind. But, in short, uncontrolled market behavior can have highly negative consequences for other values and life circumstances.

So where do we look for a force that will pay attention to our collective well-being? Well, first and foremost, we look to the second “city,” government. In a modern democratic society we see the state as having primary responsibility for regulating the market and providing for collective goods like defense, environmental protection, education, and a social safety net. Legitimated by free elections, government uses the coercive power of taxation and the uniform administration of laws to address needs made known by a majority of the public.

The dominant values of government are equity, fairness, and concern for the general welfare—exactly not those values championed by the market. When government is operating at its best, we all appreciate the benefits of the public goods it provides.

But government too has a downside, as anyone who has ever dealt with the politics and bureaucracy of a governmental agency can attest. Its virtue of universality can become the vice of inflexibility and coercion. James Douglas (whose *Why Charity?* is a must read for those interested in the rationale for the non-profit sector) calls this government’s “categorical constraint.” By this he means the imperative that government must treat every person or similar condition covered by law as uniformly the same. This categorical uniformity, while promoting justice, can create rigidity and blind insensitivity to individual circumstances. It also must adhere to the will of the majority, which, as Tocqueville warned, can be oppressive or wrong.

So, given the clear deficiencies of both the market and the state, what is the alternative for addressing our needs as a society? No surprise, given where I began, that I want to suggest that the third “city,” civil society, offers a vital third way.

Defending Civil Society

One way to describe civil society in modern terms is as the sphere in which private action produces public goods. Thus it joins the voluntary, entrepreneurial spirit of the market with the pursuit of public benefit that defines government. In its core it creates a balancing act between the private and the public.

Ideally, the “city” of civil society thus avoids the negative externalities of the market and the bureaucracy of government. It embodies the values described earlier, including the protection of individual rights, tolerance, pursuit of the common good, and philanthropy, and, building on them, provides a broader space for the pursuit of other values and life purposes, like compassion, altruism, volunteerism, concern for future generations, pluralism and protection of minority voices and interests.

The pursuit of these ideals and its freedom of action have given civil society its unique character and enabled it to become the source of great social movements—civil rights, environment, women’s movement, the breakdown of the authoritarian states in eastern Europe, anti-smoking, and in fact almost every important movement of the past two centuries that we regard as having led to social progress.

So, why does all of this matter when we are talking about the importance of the nonprofit sector today?

It matters because, unless we understand and defend the principles and purposes that are special to the nonprofit sector, what differentiates it from other domains of social life, we are much more vulnerable to economic and political forces that threaten to erode these values and purposes.

Juergen Habermas, a German philosopher, has a wonderful phrase to describe this process: “colonization of the life-world.” By that he means the tendency of the market to invade all forms of life, so that even our vocabulary becomes translated into the means-ends terms of market economics.

An example from our own work? Here are some terms that flow around the field these days: “bottom-line,” “double and triple bottom-line,” “capital investment,” “customers,” “market share,” “product design,” “going to scale,” “branding,” “value chain,” “deal flow,” “measurable outcomes,” “strategic positioning,” and the most recent one (a term I love) used in the current issue of *The Economist*: “philanthrocapitalism.” Now, none of these terms is in itself pernicious (except maybe the last), nor is the application of techniques learned in business to nonprofit work necessarily bad; but cumulatively their effect threatens to change the frame of understanding our work from that of a pluralism of differently defined human ends and aspirations to that of the linear quid-pro-quo of economic transactions.

I even have trouble with the term “social entrepreneurship” ever so popular on campus these days. It borrows on the concept of the individual business entrepreneur, who, through creative risk-taking and capital invest-

ment, grows a successful business; the analogue in the social arena is the creative founder of an organization that successfully solves a social problem. What is missing in the latter story, however, are the complex

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relationships with the public and the diverse values and goals at stake in social problem-solving—instead all of the emphasis is placed on the individual entrepreneur and his or her strategic vision.

These issues arise in an interesting way in a recent monograph by Jim Collins, author of the widely read *Good to Great*. I was delighted to see him say in his new piece, *Good to Great and the Social Sectors*, “We must reject the idea—well intentioned but dead wrong—that the primary path to greatness in the social sectors is to ‘become more like a business.’” But then, as I read on, I became increasingly disappointed to see that he still stresses the product orientation of nonprofit work—outcomes, outputs, performance, and so on—as opposed to the intrinsic value of the work itself. This is because, in my opinion, he is fixated on the model of monetary investment in nonprofit work and therefore wants to see the greatest “bang for the buck.” An analogy would be to think of the primary point of participating in sports as winning a gold medal at the Olympics, rather than the intrinsic value of the participation itself. In civil society, as in sports, the means matter as much as the ends, because in many ways the values embodied in the means are the ends.

So my primary point is that relationships with the market and the “business model” pose dangers for civil society. We’re not just producers of solutions to social problems. And I would say this to funders even more than to nonprofits: don’t fixate on “measurable out-

comes” or “scale” or “effectiveness” to the exclusion of supporting the mixture of ideals, motivations, compassion, and human interactions that constitute the essential quality of civil society organizations.

On the opposite side, the intrusion of the state into civil society can be equally problematic. It is not necessary here to elaborate on these issues, since much has been written on this issue of nonprofit-government relations—the danger of becoming an arm of the state, the distorting influences of political forces, the “who elected us?” problem, and so on—but I will just say that it is imperative for civil society to understand how far it should go in seeking to respond to broad public interests (a governmental-like activity) and how much it should defend its sometimes quirky autonomy. More on this in a moment.

The central point of these remarks is that we have something truly precious here that needs to be articulated and defended. It is present in the work everyone in this sector is doing—whether in the arts, human services, education, environment, healthcare—both in the purpose we have for engaging in this work and the way we do it.

Part of defending this sphere is understanding that it involves a delicate balance between the public and the private. If it tilts too far in either direction that balance is lost.

So what does this mean in practical terms? I will suggest three areas of action that follow from what I have been saying: educational, regulatory, and philanthropic.

First, people who work in nonprofits need to know and assert that they are part of a larger civil society endeavor that has a distinctive historical background and social purpose. We are not just social problem-solvers or beneficiaries of a certain part of the tax code; we represent a vital set of values and collectively champion a kind of vision that is essential to a healthy, compassionate society. Therefore, it is necessary to continue to educate ourselves about this tradition and distinctive mission through discussions, conferences, literature, and training. And it is equally important to educate our external constituencies about the unique character of the nonprofit sector and civil society. The work of organizations like the California Association

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of Nonprofits is a good example of that educational process, as are materials circulated to boards, articles in the press, the kind of work Jeff Skoll is doing in the media, and publications and websites that you all produce telling the world of our work. I would encourage all those engaged in the field to include language about the nonprofit sector and civil society in whatever we do.

Second, give high priority to finding the right balance in nonprofit sector regulatory issues. There is a real danger of becoming the frog in the pot in responding to incremental increases in governmental regulatory controls over the sector. Although usually motivated by the laudable goal of increasing accountability, the cumulative effect of such regulations can create a stifling climate for nonprofit activity. A few years ago, the San Francisco Board of Supervisors sought to increase the accountability of nonprofits that had City contracts by proposing that the City appoint board members and similar measures. Fortunately, the nonprofit community was able to gain passage of an alternative approach that increased accountability but did not intrude on its autonomy. Last year’s “California Nonprofit Integrity Act” posed similar negative consequences in its initial version, but thanks to CAN and others it was transformed into a more reasonable approach. Sen. Grassley in the Senate continues to work on legislation regulating foundations and nonprofits, including one highly controversial proposal to require a five-year review of their charitable status and a formal governmental ratification requirement.

Of course, the answer to such prospective governmental intrusions is not to circle the wagons, but to engage in a dual process of education, as above, and thinking through the right approach to curbing abuses while retaining the essential freedom of the sector. Ultimately, the best solution is an increase in meaningful self-regulation. The recent action by the Coun-

cil on Foundations in censuring the Getty Trust for being unwilling to provide public information on its activities is a promising first step in the foundation world. (*Editor's Note: As of April 17, the Council restored the Getty Trust's membership based on "positive and significant" reforms.*)

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Third, philanthropy should consider the consequences of its own grantmaking practices on the sector as a whole. The rapidly growing trend in philanthropic funding toward increasing "impact" has been accompanied by foundations' tendency to become increasingly proactive, adopt narrower guidelines, and pursue measurable performance indicators. While this may sometimes aid some nonprofits to do a better job, very little evidence has been offered to demonstrate an effect one way or the other, and I would suggest that its primary benefit is psychological satisfaction to grantmakers themselves that they are having an "effect." The substantial negative of this approach is that it makes it increasingly difficult for nonprofits that do not fall into the foundations' prescribed slots to find support for their work. Further, the fixation on narrow problem-solving objectives directly counters what I have described here as the need to attend to the multiple dimensions of civil society. For example the work of a Big Brothers Big Sisters organization is not just about getting the cost of mentoring down or test scores up but the quality of interactions that take place throughout the organization and its ability to engage in the broader civic discourse of the community. Similarly, the work of Meals on Wheels cannot be assessed simply in terms of the number of meals delivered but the treasured conversations that take place between the volunteers and the recipients. These effects cannot be easily captured by simplistic outcome measures.

And I can't even begin to describe the pernicious effects of one-dimensional ratings systems based purely on financial ratios.

So the bottom-line, measurable outcome of these remarks is: We need to understand how significantly we differ from the market and the state and champion that difference. And we need to pursue our goals in a way that not only advances our organizational objectives but also strengthens civil society at large. In the end, this amounts to a ringing endorsement of that venerable piece of French wisdom—in this case applied to the market, the state, and civil society): vive la différence!

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