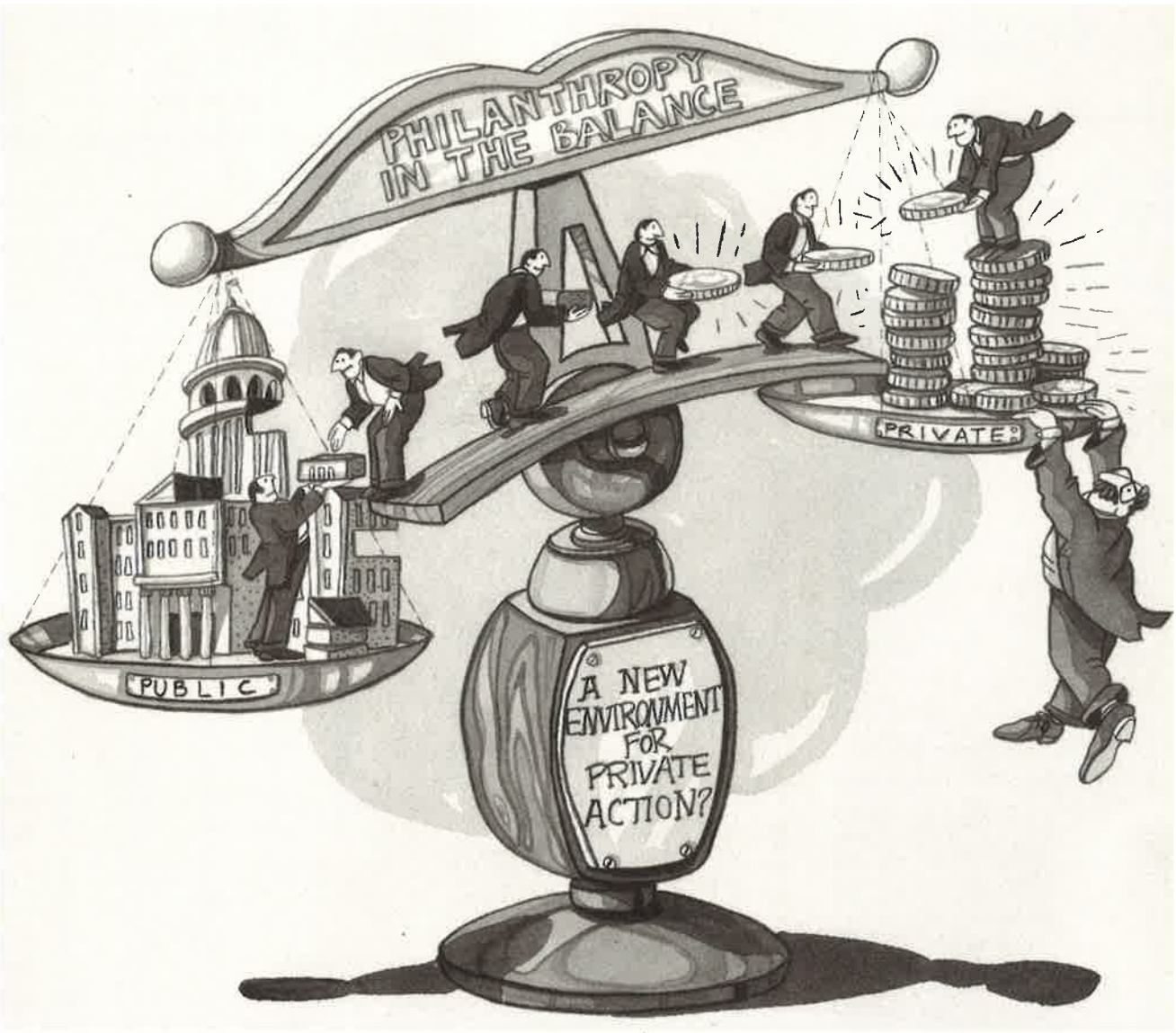
PHILANTHROPY

Winter 1996 Volume X Number 1



Proceedings of The Philanthropy Roundtable's 1995 Annual Meeting

FEATURING:

Robert Bothwell • Richard Fink • Steve Forbes • Stephen Goldsmith
Heather Higgins • Leslie Lenkowsky • William Lehrfeld

A PUBLICATION OF THE PHILANTHROPY ROUNDTABLE

From Ideas to Action: The Roles of Universities, Think Tanks, and Activist Groups

by Richard H. Fink

As grantmakers, all of us face the constant challenge of making our grants as effective as possible. We must choose between a multitude of organizations competing for funding. But what can guide us to ensure our grants will lead to lasting improvements in society? A haphazard approach certainly will not accomplish this. A strategy or plan is needed to maximize the impact of our limited resources.

Universities, think tanks, and citizen activist groups all present competing claims for being the best place to invest resources. As grantmakers we hear the pros and cons of the different kinds of institutions seeking funding.

The universities claim to be the real source of change. They give birth to the big ideas that provide the intellectual framework for social transformation. While this is true, critics contend that investing in the universities produces no tangible results for many years and even decades. Also, since many academics tend to talk mostly to their colleagues in the specialized languages of their respective disciplines, their research, even if relevant, usually needs to be adapted before it is useful in solving practical problems.

The think tanks and policy development organizations argue that they are most worthy of support because they work on real-world policy issues, not abstract concepts. They communicate not just among themselves, but are an immediate source of policy ideas for the White House, Congress, and the media. They claim to set the action agenda that leaders in government follow. Critics observe, however, that there is a surfeit of well-funded think tanks, producing more position papers and books than anyone could ever possibly read. Also, many policy proposals, written by

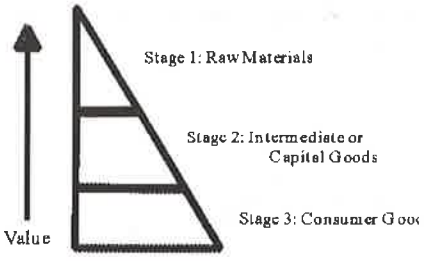
"wonks" with little experience outside the policy arena, lack realistic implementation or transition plans. And all too often think tanks gauge their success in terms of public relations victories measured in inches of press coverage, rather than more meaningful and concrete accomplishments.

Citizen activist or implementation groups claim to merit support because they are the most effective at really accomplishing things. They are fighting in the trenches, and this is where the war is either won or lost. They directly produce results by rallying support for policy change. Without them, the work of the universities and policy institutes would always remain just so many words on paper, instead of leading to real changes in people's lives. Others point out, however, that their commitment to action comes at a price. Because activist groups are remote from the universities and their framework of ideas, they often lose sight of the big picture. Their necessary association with diverse coalitions and politicians may make them too willing to compromise to achieve narrow goals.

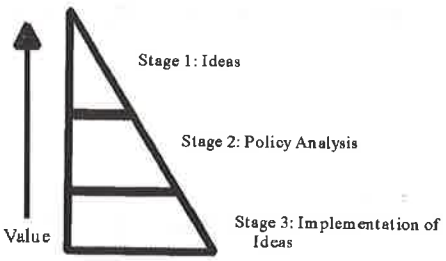
As grantmakers we can and should play a role in accelerating the process of change by gauging the climate for an idea, judging its stage of development, and then structuring our support accordingly.

— Richard Fink

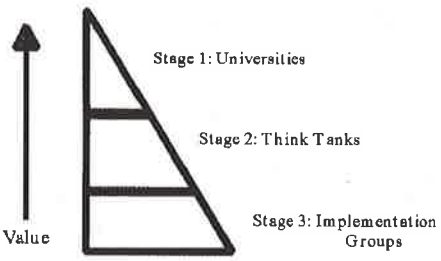
Many of the arguments advanced for and against investing at the various levels are valid. Each type of institution at each stage has its strengths and weaknesses. But more importantly we see that institutions at all stages are crucial to success. While they may compete with one another for funding and often belittle each other's roles, we at the Koch Foundation view them as complementary institutions, each critical for social transformation.



CONSUMER SATISFACTION
HAYEK'S STRUCTURE OF PRODUCTION
(FIGURE I)



CITIZEN WELL-BEING
STRUCTURE OF SOCIAL CHANGE
(FIGURE II)



CITIZEN WELL-BEING
INSTITUTIONS OF SOCIAL CHANGE
(FIGURE III)

HAYEK'S MODEL OF PRODUCTION

Our understanding of how these institutions "fit together" is derived from a model put forward by the Nobel laureate economist Friedrich Hayek.

Hayek's model illustrates how a market economy is organized and has proven useful to students of economics for decades. While Hayek's analysis is complicated, even a modified, simplistic version can yield useful insights for grantmakers.

Hayek described the "structure of production" as the means by which a greater output of "consumer goods" is generated through savings that are invested in the development of "producer goods"—goods not produced for final consumption.

The classic example in economics is how a stranded Robinson Crusoe is at first compelled to fish and hunt with his hands. He only transcends subsistence when he hoards enough food to sustain himself while he fashions a fishing net, a spear, or some other producer good that increases his production of consumer goods. This enhanced production allows even greater savings, hence greater investment and development of more complex and indirect production technologies.

In a developed economy, the "structure of production" becomes quite complicated, involving the discovery of knowledge and integration of diverse businesses whose success and sustainability depend on the value they add to the ultimate consumer. Hayek's model explains how investments in an integrated structure of production yield greater productivity over less developed or less integrated economies.

By analogy, the model can illustrate how investment in the structure of production of ideas can yield greater social and economic progress when the structure is well developed and well integrated.

This is not a suitable forum for elaborating the riches of Hayek's model. For simplicity's sake, I am using a snapshot of a developed economy, as Hayek did in parts of *Prices and Production*, and I am aggregating a complex set of businesses into three broad categories or stages of production (Figure I). The higher stages represent investments and businesses involved in the enhanced production of some basic inputs we will call "raw materials." The middle stages of production are involved in converting these raw materials into various types of products that add more value than these raw materials have if sold directly to consumers. In this model, the later stages of production are involved in the packaging, transformation, and distribution of the output of the middle stages to the ultimate consumers.

Hayek's theory of the structure of production can also help us understand how ideas are transformed into action in our society. Instead of the transformation of natural resources to intermediate goods to products that add value to consumers, the model, which I call the Structure of Social Change, deals with the discovery, adaptation, and implementation of ideas into change that increases the well-being of citizens (Figure II). Although the model helps to explain many forms of social change, I will focus here on the type I know best—change that results from the formation of public policy.

APPLYING HAYEK'S MODEL

When we apply this model to the realm of ideas and social change, at the higher stages we have the investment in the intellectual raw materials, that is, the exploration and production of abstract concepts and theories. In the public policy arena, these still come primarily (though not exclusively) from the research done by scholars at our universities. At the higher stages in the Structure of Social Change model, ideas are often unintelligible to the lay person and seemingly unrelated to real-world problems.

Continued on page 34

Fink, continued from Page 11

To have consequences, ideas need to be transformed into a more practical or useable form.

In the middle stages, ideas are applied to a relevant context and molded into needed solutions for real-world problems. This is the work of the think tanks and policy institutions, such as the Heritage Foundation, the Reason Foundation, the Cato Institute, or the Pacific Research Institute. Without these organizations, theory or abstract thought would have less value and less impact on our society.

But while the think tanks excel at developing new policy and articulating its benefits, they are less able to implement change. Citizen activist or implementation groups like Citizens for a Sound Economy, the National Taxpayers' Union, or Defenders of Property Rights are needed in the final stage to take the policy ideas from the think tanks and translate them into proposals that citizens can understand and act upon. These groups are also able to build diverse coalitions of individual citizens and special interest groups needed to press for the implementation of policy change (Figure III; *see page 11*).

Lessons for Grantmakers

What lessons can be drawn from the Structure of Social Change model for grantmakers? First of all, funding is required at all stages to produce sustainable social change. The model tells us that we need to have all stages strong and functioning to maximize output in the final stage. Also, it is vital to promote the development of pipelines or connections between the stages, for the model tells us that the output of one stage is the input for the next. Therefore, projects that promote linkages and complementarity between groups at the different stages are an important investment for grantmakers.

Secondly, the model also indicates that, in order to have an impact, grantmakers should fund projects tied to the real-world needs of citizens. The focus of grantmakers on the real problems caused by government regulation and interventionist policies is a good example of institutions from all three stages contributing to the solution of a practical problem. As the result of grant makers' increased investment in research — both inside and outside the universities — during the 1950s and 1960s, a market-oriented intellectual framework was further articulated and directed toward specific problems areas. In the 1970s and 1980s, the development and growth of think tanks, as well as the policy proposals they produced, were a result of the enhanced output of ideas from this previous investment in research. In the 1980s and 1990s, citizen activist groups emerged and grew, using the market-oriented proposals developed in the think tanks to press for policy changes that reduce government regulation.

Thirdly, the Structure of Social Change model suggests that grantmakers should use their support to encourage organizations to continually reassess where they have a comparative advantage. As the structure of social change evolves there will be market forces that will increase the division of labor and specialization. Most institutions excel in one area or stage, and not in others. For example, within the world of public policy, the Cato Institute has a comparative advantage as a think tank. It excels at publishing studies, hosting forums, and crafting free-market policy positions. Cato is successful because it realizes what its comparative advantage is, and does not try to duplicate the work of the universities or the implementation groups.

Fourthly, the Structure of Social Change model informs us that we should also seek to fund ideas at the level that is appropriate to their development at any given time. The concept of flatter and lower tax rates, for example, is an idea that has been discussed and developed for many years at the university and think tank level. It is soon to be on the table for legislative debate that will lead to defeat, modification, or adoption. Additional funding therefore is now critical at the citizen activist or implementation

group level for those who feel that this is a priority issue. Other ideas are in need of more fundamental development, so it is important to concentrate funding for these on universities and research organizations. As grantmakers we can and should play a role in accelerating the process of change by gauging the climate for an idea, judging its stage of development, and then structuring our support accordingly.

Finally, the model implies that we need to invest in sound institutions and in productive people at every stage, since without them many good ideas may not have consequences. Grants can be used to strengthen institutions and encourage them to develop cultures based on key core values, solid management systems, and effective incentive and learning systems. Grantmakers can also help in identifying, educating, and supporting productive people within organizations. While these factors warrant a more systematic articulation than is possible here, each factor is critical to building effective and sustainable social progress.

We at the Koch Foundation find that the Structure of Social Change model helps us to understand the distinct roles of universities, think tanks, and activist groups in the transformation of ideas into action. We invite other grantmakers to consider whether Hayek's model, on which ours is based, is useful in their philanthropy. Though I have confined my examples to the realm of public policy, the model clearly has much broader social relevance. •

Richard H. Fink is president of the Charles G. Koch and Claude R. Lambe charitable foundations and senior vice president of Koch Industries.