the philanthropic initiative

How to Survive a Week of Moral Hazards

By Peter Karoff

The fall foliage was glorious last week in Shelburne, Vermont and Lake Champlain, sparkling in the late afternoon sun, was seldom more beautiful. But for those gathered on the lake's edge – supporters of the Vermont Community Foundation and the Vermont Women's Fund – the subject on everyone's mind was the looming 'Winter Crisis' : prohibitive food and fuel costs for all too many Vermonters. The afternoon's lengthening shadows hinted of a darker, colder landscape of fear.

At a Hunt Alternatives Fund Cambridge Conversation session the following evening, Paul Grogan, President of The Boston Foundation, told me that Massachusetts is facing a billion dollar affordable fuel gap. Back home on Friday in Southern California, a state desperately trying to wrest itself from financial chaos where mortgage foreclosures have been among the worst in the country, social services at every level are being severely cut. My week of contrasting landscapes was like that of so many who work in philanthropy and nonprofit organizations, filled with a certainty of need that far outstrips capacity.

In these unprecedented circumstances, what will be philanthropy's response, what could it be, and how do we avoid what economists call 'moral hazards' - a term that has taken on unpleasant currency these days. "Moral hazards" refer to actions intended to solve a problem, but which in actuality too often make matters much worse. It is the slippery slope – what Robert Frost identified as – "Yet knowing how way leads on to way." Some of us learned long ago that there are always unexpected consequences to the grants we make (or do *not* make), but those consequences have not typically been framed as moral issues. But it seems to me that is what they are today.

Foundations, nonprofit organizations, and NGOs are especially susceptible to moral hazards because they operate at the very intersection of social dilemmas and appropriate responses – tricky ground in the best of times.

In the short list of philanthropy's moral hazards two stand out. The first is when we violate the prohibition to do no harm. The second, arguably far larger, especially in a time of crisis, is when a donor does not stand up and be counted when it is important to do so. If we do not respond we establish a pattern of behavior – one which once established often becomes irreversible – that sends a message that either we do not care, or do not care enough, or do not have the courage of our convictions.

Easy to say 'stand up and be counted' but what does that mean to a foundation, or an individual donor, whose assets have lost 30% to 40% of their value? What does that mean to a caring and thoughtful donor who sees the pressing and critical issues of the moment – which certainly includes the choice that people have to make between 'heating and eating' – but who at the same time understands that the bigger systemic problem is persistent poverty, and the huge gap between the "haves" and "have nots?"

Moral dimensions and moral hazards on one hand, practical issues on the other. But there are also opportunities. From Vermont, Boston and California, here are a few:

160 Federal Street
Floor 8
Boston MA 02110

617.338.2590 P
617.338.2591 F

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Think about assets more creatively. Foundations are one of the few places with truly discretionary assets, and that is still true for significant numbers of high-net worth donors. Low real estate prices have created bargains and some smart foundations trustees are buying property to house nonprofit organizations that will greatly lower the latter's operating costs. Many other opportunities for mission and program related social investments are out there. Find them!

Bring your philanthropic community together – neighborhood, city, regional or state-wide. Brainstorm ideas and collaborate with business and government on a scale that you never have before. Use this crisis to bring out the best in your community – including increased service/volunteerism from seniors and young people. This is productive work. Put the time in – it is important.

Take more risks. Don't be constrained from taking risks by excessive reliance on data and measurable results, by the rhetoric of management science that has become prevalent in philanthropy. In essence don't confuse rigor with relevance. Philanthropy's relevance is grounded in its purpose, its mission, and its role and responsibility as private intervention in public space – in essence, its moral imagination. Work that imagination beyond what you had previously thought possible.

And lastly stretch. The philosopher James Wallace writes that true generosity is when a gift is something of significant value to the giver. I am reminded of a conversation last year with a very generous friend in the hedge fund business who said – "Something is missing from my philanthropy. To write a million dollar check doesn't really cost me anything – it just doesn't feel right - anything worthwhile has to hurt a little." The real losers in this economic downturn are going to be the poor and middle class, but the wealthy still have the capacity to dig deeper – to do more, to stretch. Foundation trustees that stretch will continue funding, or even increase funding, the market free-fall notwithstanding.

George McCully, the founder of the Catalogue for Philanthropy, reminds us that Prometheus gave mankind two transformational gifts – (1) fire, which symbolizes knowledge, art and science, and (2) hope - unbridled optimism. The current challenge calls both – fire in the belly, the fire of philanthropic art – and for the belief that we can make a difference.

Peter Karoff is the author of *The World We Want - New Dimensions in Philanthropy and Social Change* (AltaMira Press 2007) and founder of The Philanthropic Initiative (TPI) – To learn more about these and other opportunities to stand up and be counted, go to [www.tpi.org](http://www.tpi.org)

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Media Contact:
Jim Coutre
The Philanthropic Initiative, Inc.
617-338-2590
jcoutre@tpi.org