The Kalamazoo Promise: A study of philanthropy's increasing role in the American economy and education

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> *The Kalamazoo Promise, the brainchild and gift of anonymous donors, hasn't transformed the Kalamazoo area overnight. But it is transforming the way people think.* —Kalamazoo Gazette (Editorial, 2007)

Students and parents, secondary and post-secondary administrators, state and federal legislators alike share concern about the rising costs of education and the access to and availability of financial aid. Is there an alternative to existing scholarship programs? Especially during these turbulent economic times, the Kalamazoo Promise—"an unprecedented experiment in economic development that guarantees full college scholarships to potentially every graduate of the Kalamazoo [Michigan] Public School (KPS) district" (Upjohn Institute)—provides a study in new ways philanthropy can play a transformative role in education.

While the program's ramifications are complex, the Kalamazoo Promise (the Promise) is itself remarkably simple. In 2005, anonymous donors established the program to cover the tuition and fees of all students graduating from the KPS system, beginning with the 2006 graduating class. The rationale for the scholarship program is explained on the Kalamazoo Promise website (https://www.kalamazoopromise.com/):

1. Education is an important key to financial well being.
2. It allows KPS to differentiate itself from other public and private school systems.
3. It provides a real meaningful and tangible opportunity for all students.
4. The Kalamazoo Promise will create opportunities for individuals who attend KPS and their current and future families. It follows–and studies have shown–that there is a strong correlation between overall academic achievement and a community's economic vitality and quality of life.

Students must only meet graduation requirements (so only a 2.0 GPA is required) and must have attended KPS for at least four years to be eligible. A sliding scale (see Figure 1) runs from 65% of tuition and fees for those attending only high school to 100% for students staying in the KPS system from kindergarten through high school. Students have up to 10 years to use 4 years of funding at any of Michigan's public colleges or universities, including vocational programs at community colleges. Monies are sent directly to the institution.

Research mechanisms have been put in place to examine the economic impact of the program—from real estate purchases to the retention of residents—as well as to track the students receiving the scholarships, including where they go to college, what they intend to study, and whether they retain the scholarship. Based in Kalamazoo, the W.E. Upjohn Institute, a nonpartisan, not-for-profit research organization with the mission of finding practical solutions to employment-related problems, is leading the research on the Kalamazoo Promise. The U.S. Department of Education recently awarded a two-year, $348,000 grant to form a partnership of the Upjohn Institute, KPS and the Western Michigan University (WMU) Evaluation Center to assess the short-term and intermediate outcomes of the Promise.

Although the Promise is made possible by private donors, the economic realities of philanthropy have not been fully examined for this groundbreaking initiative. Instead, attention has been focused on the infusion of new dollars into the school system and community as people have moved into the city to take advantage of the program. New teachers have been hired and new school facilities are being built. The end results of the Promise are certainly important, for it was established not as a typical scholarship program but as a means to an end: an incentive for students and families to support the local public school system and to stay in Michigan for their

college education. In other words, philanthropy is an indirect catalyst for economic development, particularly to improve the greater Kalamazoo community.

While it is important to study the impact of the investment on the community, the reality is that the scholarship program is being made possible because of private donors rather than through other public means. A changing marketplace is increasingly reliant on private contributions to offset divestments by government and other public sector agencies in the continued provision of key services such as primary and secondary education.

The vast resources implied by the Promise are challenging for the educational community to understand as it often operates from a position of scarcity—there is never enough financial support. In the case of the Promise, resources are not an issue. People want to put timetables or apply examples of programs with restrictions, but the Promise is universal and without limits. Attempting to apply conceptual models based on merit-based programs or need-based programs also do not apply. The Promise is a unique program that will require a new pathway of study. Arguments about whether the money was best spent on providing equal support to all are not really valid when private dollars are at play.

This paper will review the literature on the economics of philanthropy and on privately-funded scholarship programs in the context of the Promise. My analysis will demonstrate the greater role philanthropy will play in our current and future American economy, given the emergence of innovative mega-donors such as the anonymous donors who made possible the Promise through a gift some outsiders have estimated at an ultimate $250 million (Lydersen, 2006). This paper is informed by an earlier qualitative pilot study, involving media and document analysis and interviews with influential educational and philanthropic leaders in the Kalamazoo community about the impact of the Promise (Strickland, 2007).

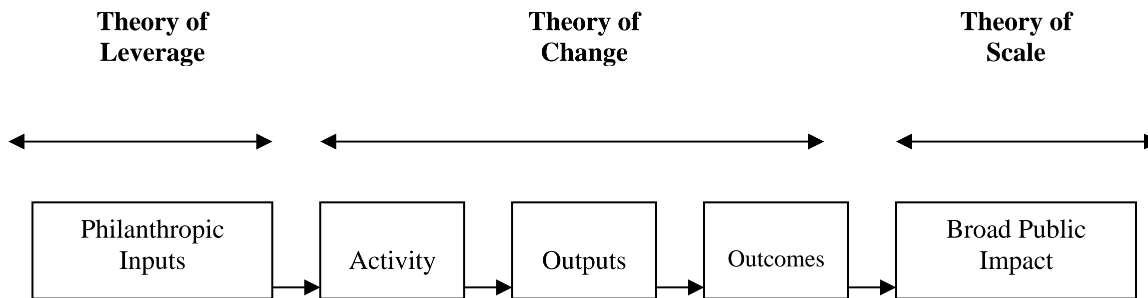
A fuller understanding of the economic implications of philanthropy is necessary because today's entrepreneurial philanthropists, and an increasing reliance on private sector support for traditionally funded public offerings, represent a new economic reality. While the existing body of literature does provide some important findings, it is insufficient to understand the kind of changing philanthropic and economic model that the Promise represents. New and emerging research in the economics of philanthropy holds possibilities for understanding future implications for public education and private funding.

Conceptual Framework

My analysis employs a model for evaluating philanthropic endeavors. Indeed, I will show that even the existing literature on other privately-funded scholarships does not adequately explain the Promise, as it is not a scholarship program in the typical sense of merit or need but instead one based on geography, with the intentions of using educational attainment as a means to economic development rather than the educational access and attainment aims of other scholarship programs.

Although the logic model has been used as a concept for planning and assessment (and in philanthropic evaluation, perhaps most extensively by the W.K. Kellogg Foundation, one of the country's largest private foundations that funds education), I will use the logic model developed by public affairs and philanthropy scholar Peter Frumpkin (2006). He contends that while external factors and broader economic and political forces are also considerations, three primary interrelated elements factor into the logic model (see Figure 1).

Figure 1. Conceptual Model: Philanthropic Logic Model



Adapted from Frumkin, P. (2006). *Strategic Giving: The Art and Science of Philanthropy*. Chicago: University of Chicago Press.

First, the *theory of leverage* considers the tactics a donor might employ. These tactics take two forms. One is the type of grant-making technique (project grants, short-term, grants, matching grants, loans, large grants to a few select recipients, issuing requests for proposals, high-engagement levels, funding overseas, joint ventures, and capacity-building grants). The second tactic is the programmatic technique (funding in communities, not program areas; new initiatives and pilot programs; support for nonprofit collaboration, not isolated work; private funding for public programs; funding of commercial ventures within nonprofits; funding for organizations created by grantmakers; and funding for independent evaluations). The combination of tactics informs the theory of leverage, which determines the philanthropic inputs.

The *theory of change* can be considered the core of the logic model. Frumkin contends that five possible change theories exist in philanthropy. Donors attempt to train individuals for leadership in a field, build stronger organization, create new networks, influence political channels, and generate new ideas and programs "with the goal of shaping the underlying paradigm and conversation." The theory of change affects the activity, outputs and outcomes of a gift. Scholarly and media attention on the Promise has primarily focused on these elements.

Finally, the *theory of scale* determines the broad public impact. This can be measured in terms of financial strength, program expansion, comprehensiveness, multisite replication and the acceptance of a new doctrine within a field.

Frumkin advocates that donors work through this logic model to strategically plan and implement their giving. From my analysis of the Promise (Strickland, 2007), I believe that the anonymous donors did think through many of these elements. New or transformational donors have the ability to change and reinvent the philanthropic inputs by developing innovative ways of giving, Frumkin concedes. I believe that the Kalamazoo Promise donors have indeed created a new philanthropic paradigm by conflating and reimagining the three theoretical elements in the logic model. As a result, the Promise itself confounds explanation by comparison to existing models and literature. At the same time, promising new research in the economics of philanthropy is emerging to help understand the future changes that are likely to come as private funding plays a greater role in all aspects of our society, including education.

Review of the Literature

A Changing Philanthropic Climate

An interesting phenomenon is occurring in the world of American philanthropy. Our economy is experiencing the largest concentration of wealth in the hands of a few since the defining period in American philanthropy a century ago (Katz, 2007; Nielsen, 1996; Tempel, 2003; Wagner, 2003). Scholars are re-examining the titans of philanthropy in the early twentieth century to better understand, as well as to contrast, the state of current giving. In 2006, for example, four new biographies of Andrew Carnegie were introduced (Katz, 2007). Gates, Buffett and other contemporary philanthropists are often contrasted with Carnegie and Rockefeller

(Marcy, 2001; Nielsen, 1996; Tobin, Solomon, & Karp, 2003; Wagner, 2003). Some scholars see similarities in the philanthropists while others argue differences (Nielsen, 1996; Tempel, 2003).

While the historical philanthropists created institutions, today's major donors are transforming them, just as they are reshaping philanthropy. "Just as they've transformed business, members of this new generation are changing the way philanthropy is done" (Blackman, Fulton, Jackson, & McLaughlin, 2000). "The new philanthropists' demand for measurable results, efficiency and transparency—for bringing a businesslike rigor to philanthropy—is already trickling down to the lowest levels of the nonprofit world" (Conlin, Hempel, Polek, & Dayton, 2003).

Gifts from these transformational donors, studied comprehensively by Grace and Wendroff (2001), are distinguished by "their unique capacity to alter the programs, perceptions and future of an organization (p. 15)." The concept of a transformational gift was first applied to large private donations to public universities. These gifts also represent an important change in educational economics, with private dollars complementing institutions traditionally funded primarily by tax dollars, which has occurred within the last several decades.

This blurring of lines between public and private would have been foreign to Carnegie and Rockefeller. "All of the first industrial philanthropists were very clear on one central point: philanthropy was not a business engagement and business was not philanthropic" (Clotfelter & Ehrlich, 1999, p. 66).

Even if they made their money quickly in the technology boom a decade ago, today's donors take a considerable amount of time to research an organization (Allen, 2007). Contemporary givers create rather than simply support philanthropic projects (Schervish, 2005). In addition to often seeking out the institutions they want to support (Grace, 1999),

philanthropists are spending out the resources during their lifetimes, applying vast sums of money and talent to troubling societal issues (Conlin et al., 2003).

It is important to note that while headlines and references abound in both scholarly and popular literature to transformational giving and positioning current donors as the new Carnegies and Rockefellers, the research on today's major donors is still emerging (Grace, 1999; Prince & File, 1994; Tobin et al., 2003). Tobin and associates conclude that mega-gifts of $10 million or more have received individual accolades but not systematic study, with little research devoted to understanding the mega-gift or the mega-donor (2003).

I would contend that this new "Golden Age of Philanthropy" (Tempel, 2003) also calls for a re-examination and a need to create new economic paradigms for understanding and explaining philanthropy itself. While one would suspect the fields have intersected, the interest in examining philanthropy, altruism, generosity or charity—the various terms that might be applied to the act of giving—by economists is relatively young and incomplete (Leonhardt, 2008). In fact, recent scholarship on the pioneering works in this area help to better inform the context for why such work was even undertaken.

Interestingly, the rather new fields of philanthropy and economics converged in 1959 when the historian Merle Curti, who created the authoritative work on the subject matter of educational philanthropy (Curti & Nash, 1965), was selected to participate in a commissioned study of philanthropy with economist Gary Becker (Fontaine, 2007). At nearly 40 years old, the Curti & Nash text is still the definitive work on the history of philanthropy in higher education.

To further demonstrate why the current state of research is inadequate to address the increasingly important role of philanthropy in today's economy, I will briefly review some of the classic concepts of economists. More attention will then be given to recent works on the

economics of philanthropy, some of which call for a revision of historic ideas, while others represent unchartered territory.

Historical economic concepts

An egoistic motivation for giving can be traced back to Adam Smith's *The Wealth of Nations*. "Smith's thoughts concerning human action as essentially, if not entirely, self-interested, has been the cornerstone for economic theory ever since" (Cascione, 2003, p. 19). Economists have attempted to define the self-interest in giving by categorizing the benefits as either public or private. Even if people do not give to a charity, as members of society, all benefit to some extent from the output of the nonprofit organization. For example, people have access to National Public Radio whether or not they contribute (Vesterlund, 2006). In this way, people can decide to "free ride" off of others' generosity instead of contributing themselves.

Economists have also tried to determine the extent to which free riding will occur by comparing the effects of governmental spending on private giving. The public benefits concept claims a donor's main motivation for giving is to enjoy the organization's outputs. If the same output of the charity can continue under governmental funding, private donors who merely want the benefit of the nonprofit organization's output will stop their own giving as the output can continue under governmental funding—private giving will be "crowded out" by public giving. (Bergstrom, Blume, & Varian, 1986). The extent of the crowding-out concept has been contested (Rose-Ackerman, 1996; Vesterlund, 2006). The limitations of the concept of free riding and crowding out are similar: if motivation for giving is to enjoy the benefits of the organization's output—and those could be accessed by letting others give ("free riding") or through public funding ("crowding out"), charitable giving should disappear for all but the wealthy.

Since nearly 90% of U.S. households make an annual charitable contribution (Independent Sector) , however, there must be some other benefit or utility donors receive from giving other than the output of the charitable organization. Economists have thus concluded that most giving is motivated by a private benefit only the donor enjoys. Much of the economic literature on philanthropy has focused on the utility function of giving. Utility is essentially the measure of satisfaction one receives from consuming goods. "Traditional economic approaches are based on cost/benefit analyses that suggest that individuals seek maximum utility for minimal cost" (Cascione, 2003, p. 19).

For example, Ireland (1969) contends that while philanthropy might want to affect the public good, personal motivations for giving alter the efficiency conditions of society for providing that public good. Donors calculate their giving through four possible motives: to achieve a desire for public goods for direct personal motives, to achieve a desire for public goods for broader public motives, to perform a "good" act or to further political motivations. People are thus acting to preserve their own self-interests even when they are seemingly acting altruistically.

Andreoni (1988) believes donors receive utility not only from seeing the satisfaction others receive from their giving but also from feeling that they played a part in that satisfaction. He termed this good feeling about making a contribution as a "warm glow" effect donors receive. Giving is not strictly rational, so hearing about a big gift does not mean others won't give. In fact, donors want the "warm glow" of being part of a movement larger than themselves. Philanthropy is as much about the person giving the gift as it is the gift's effect (Leonhardt, 2008).

Becker (1974) is widely credited with developing a utilitarian view of altruism in his seminal work, *A Theory of Social Interactions*. Becker himself (1997) notes the linkage of

altruism to family ties is controversial, and has led to his aptly named "rotten kid theorem." Parents are motivated to seemingly act altruistically toward their selfish kids if they believe there is a greater rate of return in saving for old age through investing in their children rather than retirement savings.

Giving can be traced to primitive societies, where the giving of gifts is a form of ritual, commerce and stature. After studying tribal cultures, Mauss (1954) outlined gift-exchange theory, the concept that people give based on a mutual exchange of tangible goods. Akerlof (1984) applied the gift-exchange theory to explain why firms would pay workers wages higher than the market rate: in exchange for a higher salary, workers would reciprocate with more productivity and loyalty to the firm.

The reciprocity concept of tangible goods was "a stumbling block in developing theories of private giving until economists decided that charity could be based upon the utility to the donor of the gift given. The utility could be altruism or an indirect benefit (maintaining or enhancing the prestige of one's alma mater) or more direct (the prestige associated with giving)" (Brittingham & Pezzullo, 1990, p. 34).

Related to the utility of giving concept, economists have also tried to understand the opportunity cost of giving. While people receive a tax benefit for donating, they still incur some cost of giving—donors could have kept or invested the money given away. Proportional changes in the marginal tax rate, which is based on income, are measured against proportional changes in the price of giving, or the tax-deductibility of the gift. Early research in the 1970s essentially found "when tax rates were higher—and deductions were thus more valuable—people gave more" (Leonhardt, 2008).

Economists have tried to determine the sensitivity to both price and income for the past three decades, but there has been disagreement over the extent to which giving responds to these factors (Vesterlund, 2006). Early research concluded that giving was price elastic (greater than one in absolute value) and income inelastic (less than one) (Rose-Ackerman, 1996). Price elasticity estimates have come into question, however, because they have largely been based on cross-sectional studies. One year of data makes it difficult to distinguish the effect of changes in income from that of prices since the marginal tax rate increases with income; are people giving more because of a higher income or a lower price? (Vesterlund, 2006). Others have suggested that price elasticities differ by the extent of wealth and that the timing of tax changes calls for an examination of temporary versus permanent income and price effects (Rose-Ackerman, 1996).

To summarize, key historic economic explanations of philanthropy have focused on the benefits of giving, either public or private, and how charitable contributions are impacted by governmental spending or changes in tax rates. Several catch phrases prevail, including the utility of giving, gift-exchange, free-riding, warm glow, and crowding out. With public benefits, other givers besides the donor may benefit from the charitable organization's output. Private benefits are enjoyed by the donor and may vary by individual givers: the act of giving itself may provide some utility or benefit, or donors may feel they have repaid a debt or that they can share in a charitable organization's output because they contributed. The distinction between the two utilities has been based on the effect of others also giving: an individual's giving will decrease as more people give if the benefit is public but it will not be affected by others' generosity if the benefit is private (Vesterlund, 2006).

The distinction between the public or private benefit to the donors becomes blurred in the case of a unique act of charitable giving that established a program called the Kalamazoo

Promise. Moreover, the lines between public and private monies blend as the program has incentivized a sector traditionally funded by public dollars, secondary education, resulting in renewed public and new private investments in a school system.

Contemporary economic findings

While recent research has questioned and expanded traditional economic concepts of philanthropy, it has also brought renewed attention to neglected or under-appreciated works. As noted previously, Becker's 1974 study was largely credited with starting a new line of economic theory that examined how self-interested actions could explain seemingly unselfish behavior: giving could impact the public good and still provide benefits or utility for the donor. Fontaine (2007) believes this demarcation of time ignores important scholarship in the previous decade, including a previous essay by Becker himself, which explored unselfish behavior.

The reason Becker and his contemporaries, Boulding and Vickrey, even began researching philanthropy and unselfish action in 1959 is because they were commissioned to do so. The National Bureau of Economic Research (NBER) commissioned research under a grant from the Russell Sage Foundation (along with Curti, as previously noted). In fact, Fontaine contends that Becker—largely credited with beginning the economic line of inquiry into philanthropy—would not have even ventured into that realm had it not been for his NBER association. For Becker, the philanthropy focus was merely an extension of his study on discrimination and an opportunity to apply the maximization principle and utility interdependence outside economics.

While Becker and his colleagues were able to further their own research interests, then, I would caution that this historical example of the government and the foundations it regulates commissioning their own research, as in the case of NBER, will likely be repeated. When

researchers who have been commissioned by foundations or government have criticized the foundation world, their funding has not been renewed, which raises questions about the objectivity and ethics of such relationships (Katz, 1999). This is not to imply that commissioned research cannot be critical and impartial, but rather that research on philanthropy should be ongoing rather than only in response to requests. As wealth and philanthropy increasingly become the focus of media attention and public policy, our society needs the objectivity of academic research on the subject to balance popular and funder sponsored messages.

In this time of increasing globalization, a better understanding of philanthropy is also needed to understand its role in the American economy. Economics and entrepreneurship are intertwined and that entrepreneurship has been incorrectly viewed as purely self-interested behavior (Acs & Phillips, 2002). Prior to *The Wealth of Nations*, for example, Adam Smith wrote *The Theory of Moral Sentiments*, championing more humanistic than capitalistic concerns. If Smith is the father of modern economics, we must re-envision our concepts (Cascione, 2003; Khalil, 2004).

In addition to re-examining Smith, Acs and Phillips (2002) also call for a fresh review of Boulding, one of Becker's contemporaries in the NBER study. According to Fontaine (2007), Boulding did not adhere to the traditional divisions in the social sciences and was looking for a more interdisciplinary approach to philanthropy—nearly a half century ahead of his time in this comprehensive outlook. Through the NBER commissioned research, he moved into more work on human behavior and applying anthropological theories of gift-exchange to understand a more integrative system.

Boulding was greatly influenced by Mauss, whose work is the subject of an interdisciplinary collection of essays entitled *The logic of the gift: Toward an ethic of generosity*

(Schrift, 1997). By returning to Mauss' work, which contrasted gifts and gift exchanges with commodities exchanges to show that a market did not originate with money, scholars from a variety of fields explore the ways gifts establish a social and economic hierarchy. Recent research on gift-exchange experiments shows that under differing conditions, people can exhibit either selfish or reciprocal behavior (Pereira, Silva, & Andrade, 2006).

While Mauss' work reminds us that the gift-exchange relationship dates back to archaic societies, revolutionary work on philanthropy demonstrates that motives for giving are not evolutionary but enduring. New findings in brain physiology, from the intersection of evolutionary neuroscience and economics, have implications for a fresh understanding of market motivations. Researchers have recently discovered our brains have been wired for egoistic as well as empathetic actions (Cory, 2006). Neuroscience confirms that placement on the selfishness-empathy continuum is contingent on genetics as well as social and economic conditions (Levine, 2006).

Current scholars, then, are not discounting pioneering concepts; they instead claim that economic concepts on philanthropy are incomplete, inconclusive or incorrectly prioritized. Rather than either a public goods explanation of philanthropy or a focus on private consumption, Duncan (2004) advances a third model: "impact philanthropy." He claims this model will predict philanthropic behavior because it captures the ways philanthropy interrelates with other aspects of giving, such as the relationship of a charitable organization to its donors or fundraising activities. His model accounts for negative gift externalities in ways previous research does not. For example, an "impact philanthropist" who seeks pleasure from seeing the measurable result his or her own personal giving alone makes on a charitable organization could actually have that charitable fulfillment decreased by others' gifts.

Yoo and Harrison (1989) also call for a new model of philanthropy that factors for previously unaccounted benefits donors receive, such as from fundraising activities that provide donors with recognition or recipient interaction. They believe previous studies have failed to apply a conventional supply and demand model that treats philanthropy as a public good. Economists have figured elasticities of personal giving based on marginal tax rates. Instead, donors should be viewed as purchasers and recipients as suppliers, where donors are purchasing psychic rewards such as ego stroking by fundraisers. Leslie and Ramsey (1988) come to similar conclusions in studying higher education, calling for an accounting of the influence of fundraising practices.

Indeed, current research holds that we need a fuller understanding of individual utility functions and of donor motivations through cognitive psychology in order to advance an economic understanding of philanthropy (Rose-Ackerman, 1996). While groups and organizations might act in ways predictable by theory, the dominant utility theory does not fully account for the unpredictable human dimension (Leslie & Ramey, 1988).

The implications of taxation policies on philanthropy are also better understood today as donor motivations are considered. Estate taxes especially figure into giving. “Money that goes to government is seen as taken away, while money donated to philanthropy is seen as money given away” (Ostrower, 1995, p. 101). Tax motivations for giving have also been overestimated (Panas, 2005). Clotfelter, one of the first economists to study the marginal tax rates and their effects on giving, has continued to examine the relationships between taxation and the wealthy. He recently declared that the situation has become increasingly complex (Auten, Clotfelter, & Schmalbeck, 2002).

Historical and current implications

Economic research on philanthropy has historically explored largely theoretical concepts. Altruism has primarily been viewed not through specific examples or contexts but rather as elements in a function or theorem. Even studies drawing upon marginal tax rate changes did not fully differentiate by types of philanthropists (such as the mega-wealthy) or the objects of philanthropy (such as giving to the arts versus education).

That is changing, however. A former University of Chicago economics professor, John List, is conducting real-world experiments relying on randomized trials in his studies of charitable behavior (Leonhardt, 2008). Innovative work on the economics of philanthropy has the potential to impact social science methodology.

Understanding why people give will become increasingly important in this struggling economy. The government subsidizes charitable donations each year valued at an estimated $50 billion, monies that could be spent elsewhere or perhaps lowered if research uncovers the full extent to which a tax deduction motivates giving for the average American (Leonhardt, 2008).

Tax deductions do not fully explain motivations for the ultra rich. “The mega giver takes every advantage of the tax laws. But tax savings isn’t the primary force behind giving. And for many, tax isn’t a factor at all” (Panas, 2005, p. 162). With an estimated $250 million endowment established (Lydersen, 2006) for the Promise in particular, the donors were not likely motivated by taxation implications.

The remarkable resources of such donors, exemplifying the concentration of wealth in a select few, present the opportunity to alter our society and our marketplace, especially as they bring creative approaches to philanthropy. Public-private partnerships are becoming more

common and in new venues where government had largely been responsible, such as public education.

Frumkin noted the possibility of new donors changing the tactics informing the theory of leverage. Clearly, the Kalamazoo Promise represents a new configuration of "philanthropic inputs." The donors chose to be highly-engaged but anonymous; they crafted a program aimed at economic development but left the details of realization to others; they funded a community but for a specific program; they directed private dollars toward public institutions; and they created an initiative that is disarmingly simple yet powerful.

As I noted earlier, most of the media attention and research has focused on more traditional definitions of activities, outputs and outcomes. How has the Promise's alteration of the philanthropic inputs affected the other elements of the logic model? By all accounts, even measurements that might be more aligned with economics have proven successful. For example, the school recently passed a significant millage and two new schools have been built (one at the elementary level, indicated the growth in new students is from those wanting to take full advantage of the Promise) (Brown, 2007). Appraised values of homes within the KPS district have experienced a larger than expected increase as well (Mack, 2008a).

Frumkin posits five possible *theories of change*—focused on individuals, organizations, networks, politics or ideas—that help determine the activity, outputs and outcomes in a philanthropic logic model. The literature on philanthropy and the economics of philanthropy helped examine theories of leverage and philanthropic inputs. I will now turn to the literature on education, economics and philanthropy to understand the change theory at work in the Kalamazoo Promise.

Education, economics, and philanthropy

Philanthropy's ability to shape our society and economy are at the heart of works by Gaudiani (2003) and Raymond (2004). Drawing upon economic theorists including Becker, Gaudiani posits that philanthropy has driven and can continue to save capitalism. She also explores at length the role scholarship programs have placed in society as investments in human capital. She maintains that philanthropy has often prompted governmental or for-profit funding, such as in the American Legion's role in the passing of the GI Bill. Scholarships are "investments in the most important aspect of any society—its people" (Gaudiani, 2003, p. 58).

While Gaudiani focuses on education, as one might expect from a former college president, Raymond focuses primarily on health care. She examines the tension between the marketplace and philanthropy, which doesn't value efficiency. She asserts that most research has viewed philanthropy as a stock when it should be measured as a flow. Being able to better predict the role philanthropy plays in the economy is critical, especially if private dollars are being factored into programs as replacements for public funding. This understanding becomes even more crucial when support of schools is no longer viewed as philanthropy but "survival" (Doyle, 1994).

Indeed, Frederick Hess, director of educational policy studies at the American Enterprise Institute in Washington, D.C., cautions that it is time to think more critically about the role philanthropy plays in shaping education policy (2005). While he focuses more on K-12 efforts, his conclusions have applicability to higher education as well. He wisely notes that education philanthropy is both underestimated and overestimated. Publicity for huge gifts inflates the perception of impact, even though public sector support of education would equal about $500 billion while philanthropic foundations came in around $4.2 billion for education in the 2004-05

year. Even so, the lack of research and order to the philanthropy results in an underestimation of how donors might shape—deliberately or not—an educational agenda. Private dollars are so attractive because of the difficulties in increasing local, state or federal funding. Donors, particularly a new generation of philanthropists such as Bill Gates and Michael Dell, have impatience with bureaucracy and demand accountability. At the same time, their high profiles sometimes attract unwanted media scrutiny.

Hess cites several challenges to current educational philanthropy, such as the tendency of donors to support conventional, educator-driven programs rather than risking criticism. Donors are often attracted to specific programs rather than crucial pipeline funding, which is more ambiguous and hard to measure. While accountability is necessary, the choice of assessment and evaluation tools is critical.

Jane Sjogren, a university professor who participated in reviewing applications for the first round of the Gates Millennium Scholarship program, also tries to put philanthropy in perspective, both in terms of dollars as well as potential impact (2000). Even as she calls the Gates program the "largest single private donation to higher education in U.S. history…and one of only two among the 20 largest donations to higher education to be earmarked for scholarships (p. 42)," the program still pales in comparison to federal, state and institutional aid. Although she is soundly behind this program, she cautions that philanthropy is subject to private donors' whims and tastes and that the larger collective social responsibility for the educational well-being of young people must fall to everyone.

Although Bill & Melinda Gates are the faces of the program, the Gates Millennium Scholarship program is still largely operating at an organizational level, with a private foundation administering the program. The I Have A Dream (IHAD) scholarship program attempts to do

just what Sjogren advocates, to make educational philanthropy more personal. Extensive funding and backing has been devoted to studying the IHAD programs in Chicago (Kahne, 1999). New York philanthropist Eugene Lang began the program, which provides financial, academic and social support to randomly chosen classes of sixth grade students attending public schools. There are nearly 200 such sites across the country. The program continues the personal touch by matching a philanthropist in a mentor role.

The personal connections have proven challenging as racial, cultural and socioeconomic lines are crossed. When successes do result, it is still at the individual level. Although this is the purpose of the program, it is also one of the criticisms. Donors have attempted to help the individual young people they sponsored without addressing the greater societal issues often leading to their situations. A three-year evaluation of the program did not find that a desire to impact the greater context resulted. Although the personal involvement of philanthropists makes IHAD's strategy nontraditional, the program's traditional philanthropic model emphasizes direct services instead of social change (Kahne & Bailey, 1999). The challenge to the IHAD program is that it becomes as much about the individual donors' needs and expectations as it does the students. For every true altruist, there are donors who want to feel important and powerful, who want to see immediate change even when long-term intervention is necessary.

The Promise, philanthropy and economics

It seems the Promise creates a new paradigm for scholarship support. It attempts to affect systemic change both the IHAD and Gates are criticized for overlooking, even as the Promise attempts to influence the system by impacting the individual. It provides assistance for the individual but places the responsibility for success on the community. The anonymous donors

are seemingly motivated by bettering the community but do not want the recognition, engagement or stewardship that contemporary or historic donors expected.

Raymond (2004) believes K-12 philanthropy has the most effective impact not on overall school reform, but on individual school systems where private investments are made. Although her work predates the Promise, the scholarship is precisely focused on a particular community. She also presciently argues that school philanthropy must partner with parent volunteers. While, to my knowledge, this aspect of the Promise's impact has not been financially computed, her argument for claiming this economic connection is compelling: the hours that parents volunteer in schools could be measured at more than $2 billion annually (calculating estimated time at the Independent Sector valuation of volunteerism). A main component of the Promise's success to date has been the support of volunteers, not necessarily parents, but various members of the Kalamazoo community (Mack, 2008a).

Even so, private support can be a political catalyst to push reform (Doyle, 1994; Nyborg & Rege, 2003). Such great changes are being made in the KPS system that other cities and even government officials are talking about replicating the Promise in other areas as a means of reforming broken educational systems (Schultz, 2007). Those changes include increasing public spending in the form of passed millages as well as an increased emphasis on private support. In this way, the Promise is its own "crowding out" study. The concept of governmental spending limiting private spending has been contorted: private donors stepped in to revitalize a governmentally funded entity by promoting public education, and that philanthropy has resulted in more governmental aid, as well as increased volunteerism and an awareness of the need for private support of the public school system.

The Promise also calls into question the private benefit aspect of giving because the donors are anonymous. Ego motivations and other fundraising benefits current economic literature cites do not apply in the case of the Promise donors. Even within the literature on philanthropy itself, anonymous giving remains the most understudied aspect (Schervish, 1994).

Aside from fascination with anonymity, media focus on the Promise has noted, often critically, that funds were not provided for school resources. There are added costs of "philanthropic capital" (Tierney, 2007). Duncan's previously noted concept of "impact philanthropy," a new alternative to economic theories, helps account for explanations of why donors such as those to the Promise did not provide operating support. An impact philanthropist, as opposed to a public goods or private consumption philanthropist, perceives a greater impact by targeting a specific part of the production process that can be measured (Duncan, 2004). The way the Promise is structured, others' contributions—such as volunteers and governmental funding—can be monitored and evaluated, allowing for comprehensive study of the program's economic impact.

It appears that the Promise donors are attempting to change the Kalamazoo community with a program that employs each of Frumkin's theories of change. The Promise prepares *individuals* (students) and it builds stronger *organizations* (the schools). It creates new *networks*: an independent auditor just evaluated the community support of the school system as some of the strongest it had ever seen and community volunteerism has surged. It influences *politics*, at least indirectly; the passage of a millage in Kalamazoo's wealthier sister city of Portage was attributed to the influence of the Promise (Bennett, 2008). And it *generates new ideas and proposals for a field, with the goal of shaping the underlying paradigm and conversation*. While it remains a

challenge, community leaders are trying to help all constituents understand education as a critical catalyst for economic transformation (Upjohn Institute).

Some components of the *theory of scale* and the resulting broad public impact (the supporting tactic at the end of the logic model that allows the donor to maximize impact) are harder to assess through existing literature. The *financial strength* of the program is sound, as it is slated to continue in perpetuity. In fact, the Promise was established as an operating foundation, which is a rare model in philanthropy because it requires a high level of mission specificity and substantial donor resources (Frumkin, 2006). The *program expansion* is evident even in the third year of results as more students qualified for and took advantage of the program as high school graduates and overall KPS enrollments grew (Mack, 2008a). The *comprehensiveness* of the program has become evident as the community has rallied around the Promise. For example, the Kalamazoo Foundation just established a mini-grant program to fund citizens' ideas to help support the Promise (Mack, 2008b). Kalamazoo Communities In Schools, a previously existing program to connect students and community services to overcome physical, social, and emotional barriers, found its mission became even more urgent after the Promise's creation. It is now in the midst of a substantial campaign, enjoying greater support than ever (Brown, 2007).

Existing literature can yield some assessment advice for *multisite replication*. As dozens of cities from around the country have started or have explored starting their own Promise programs (Mack, 2008a), the challenge is to determine what is unique to Kalamazoo. "For example, some innovative programs appear to succeed because of special local conditions, a few unique people, or the initial enthusiasm of participants" (Hanushek, 1997, p. 303). Kalamazoo

does have a history of philanthropy and volunteerism that helps this program to succeed (For the Benefit, 1997).

While it might not be *accepted doctrine* yet, the Promise has created a new type of dialogue surrounding the public school system. In 2007, Michigan Governor Jennifer Granholm unveiled a plan for "Promise Zones," a public-private partnership to replicate the Kalamazoo Promise in selected communities throughout the State (Christoff, 2007). People from 80 communities in 22 states came to Kalamazoo in June 2008 to discuss scholarship programs aimed at economic development. As part of that conference, Brookings Institution representatives even unveiled their forthcoming proposal for piloting a federally-funded Promise program in communities selected through a national competition that would also rely on local community matches (PromiseNet, 2008).

These state and federal policy proposals are just two examples of private funding spurring public action. As transformational donors move into the educational arena, they will likely continue to impact policy in new and even unpredictable ways (How Many Billionaires, 2008). Philanthropists understand that they are not a replacement for government, but they also understand their abilities to act in innovative ways that can complement the public sector (Ostrower, 1995). By its very nature, the interplay between individual philanthropy and collective public good is complex and challenging, and "the tension between the private character of giving and its inherent public dimension is only likely to increase over the coming decades as a massive multitrillion dollar intergenerational transfer of wealth is expected" (Frumkin, 2006, p. 2).

The power of the wealthy understandably brings concern. Even so, many argue that the wealthy will be privileged regardless of whether they donate. This perspective led one scholar to

respond to the inevitable criticism of philanthropy after an extensive study of the elite in New York City: Isn't it for good and can the government do any better? (Ostrower, 1995). A recent gathering of educational leaders and policy analysts concluded similarly about philanthropy's increasing involvement in public education:

> *But the reality is that these things won't change without philanthropy. The problems are too complicated and the politics are too dogmatic at this point. We can't solve it without outside intervention. We'll need smart people to invest in solutions that can help illuminate the path forward. At is best, that's what philanthropy can do.*
>
> *How Many Billionaires, 2008*

Conclusion

The Promise yields fruitful study for educational policy as it forges new ground in mobilizing community resources and leadership, and also in utilizing private philanthropy to spur public sector action. The very simplicity of the Promise is perhaps why it has confounded media and defied application of existing paradigms from the literature. The literature has generally focused on student outcomes of privately-funded scholarships but not as much on the philanthropic implications. And the literature has focused on the relationship between philanthropists and institutions, but not in cases of anonymity.

The Promise creates a new paradigm for scholarship support. It attempts to affect systemic change as well as to influence the system by impacting the individual. The Promise is universal and without limits. Assessing the program based on conceptual models from merit-based programs or need-based scholarships will yield an inaccurate understanding of the program's true impact.

To assess the philanthropic implications of the Promise, this paper has applied a conceptual model used in philanthropy evaluation, a logic model. After reviewing the literature on the economics of philanthropy, it is clear that scholars are just beginning to explore the full ramifications of this field. Based on the conceptual model, the Promise is not a typical philanthropic endeavor, either, and requires greater understanding.

The Promise donors have employed a *theory of leverage* that combines the tactics of their grant-making technique and their programmatic technique in unique ways. They have funded a significantly large gift that will benefit one community but countless recipients, through a focused project on education that really aims to encourage economic development, and it benefits the school system without giving dollars to KPS. It uses private dollars to renew public support of education. The philanthropists also appear to be aiming not only for maximum leverage but also optimal change. Rather than one theory of change, all five appear to be at work in determining the activity, outputs and outcomes of the gift. The donors are at least indirectly enhancing individuals, building stronger organizations, creating new networks, influencing political channels, and generating new ideas and programs to shape the underlying paradigm and conversation. Finally, the *theory of scale* in the Promise appears to be aimed for the broadest public impact, at least in the Kalamazoo community, as the program encompasses financial strength, program expansion, and comprehensiveness. It also appears to be leading to multisite replication and the acceptance of a new doctrine within a field.

The Promise is a unique program and because the philanthropists are anonymous, it limits a complete understanding of their motivations. Even so, based on the research that shows a new, transformational donor in this new Golden Age of Philanthropy, it would behoove the educational community to understand the type of donor represented by the Promise

philanthropists. Private investments in public education will only increase. While these collaborations should be approached with caution, these partnerships can also be mutually rewarding, as evidenced by the Promise.

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