

# The Economics of Empowerment

The Civil Rights Origins of  
Program-Related Investments

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## “Investment Philanthropy”

The concept of philanthropic engagement with private sector markets and methods goes at least as far back as Benjamin Franklin’s support for apprenticeships. Over one hundred years ago, the Russell Sage Foundation famously promoted what its vice president Robert W. de Forest called “investment philanthropy.” Using up to one-quarter of the Foundation’s principal, and with the stipulation that such investments should yield a return of at least 3 percent, the Foundation’s most long-lasting endeavor of this sort was the Forest Hills Gardens affordable housing development in Queens, New York. Described as a “business investment of the Russell Sage Foundation [...] conducted on strictly business principles for a fair profit,” the development project promoters emphasized, “it is not a charity.”<sup>1</sup>

If foundation involvement in for-profit endeavors for charitable purpose is not new, neither are the debates that inevitably surround the concept. Evergreen issues are those involving fiduciary responsibility, invading capital, the relationship between investments and grants, and the long term health of an endowment. Margaret Olivia Slocum Sage (1828-1928), founder of the Russell Sage Foundation, was particularly concerned about the diminished income that “social betterment” investments would produce:

I have had some hesitation as to whether the Foundation should be able to make investments for social betterment which should themselves produce income, as for instance small houses or tenements... I realize that investments for social betterment, even if producing some income, may not produce a percentage as large as that produced by bonds... and that the income of the Foundation might be therefore diminished by such investments.<sup>2</sup>

The narrowly-defined philanthropic mechanism we now call the Program Related Investment (PRI) was born only fifty years ago, devised by a cohort of philanthropic funders working in the civil rights field in the 1960s. In closed-door meetings, a dozen foundation representatives debated new approaches they hoped would most effectively multiply philanthropic resources. Leaders from the Field, Taconic, and Ford Foundation, the Rockefeller brothers Fund and others were specifically trying to address more comprehensively the problems confronting African Americans. Today, the PRI -- defined as an investment which enables tax-exempt foundations to invest in for-profit initiatives to achieve a philanthropic purpose -- is available to any private foundation who is willing to do the paperwork, and of course can be adopted to serve any number of charitable missions.

This paper focuses on the birth story of the PRI in the context of the Civil Rights movement. My aim is not to tell a comprehensive story about how PRI’s have been employed over the last five decades, nor to delve into the regulatory or administrative details and developments. Rather, I present the PRI origin story by considering that moment within the histories of capitalism,

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<sup>1</sup> “Forest Hills Gardens: The Suburban Land Development of the Russell Sage Foundation.” New York: The Sage Foundation Homes Company, 1912, pp.7-8. See also Russell Sage Foundation Records, FA015, Rockefeller Archive Center. <http://dimes.rockarch.org/FA015/>

<sup>2</sup> John F. McClymer, *War and Welfare: Social Engineering in America, 1890-1925*. Greenwood Press, 1980, pp. 57-58. Op. Cit. Ruth Crocker, *Mrs. Russell Sage. Women’s Activism and Philanthropy in Gilded Age and Progressive Era America*. Indiana University Press, 2006, p.226.

philanthropy, and discourse about race. Focusing on the years 1966-1970, I will narrate the development of the PRI using sources from the philanthropic staff point of view and its criticism within a wider funding context. In so doing, I hope to give voice to and acknowledge the agency of the those funded.

This story takes place at a time when philanthropic strategies were changing, as the grantee pool went beyond the ivory tower and foundation endowments no longer experienced the seemingly exponential growth of the post-war years. An expanding federal government, especially in the Kennedy and Johnson years, seemed to have solidified philanthropy's role as developer of proof-of-concept, and then a shifting relationship with government that characterized the Nixon era.

Not simply a strategy in the philanthropic toolkit, the PRI sits at the crossroads of several ideological strands, from Black Power activism and community action to urban development and Black capitalism. The PRI emerged as social science theories were evolving as well, resulting in changing approaches to defining the problems philanthropic funds set out to solve. Post-war development ideology, delinquency and opportunity theory, and the "culture of poverty" thesis were first promoted and then contested in this period. And yet, in many ways these ideologies were unintentionally reinforced by the people who thought they were helping usher in a new era of African-American empowerment.

## **Mid-century problems and philanthropic approaches**

At mid-century, philanthropic foundations concerned with African-American rights and race relations worked primarily in the familiar territories of research, publishing, education, and fellowships. The Rockefeller Brothers Fund in 1944 helped start the United Negro College Fund.<sup>3</sup> That same year, Gunnar Myrdal's Carnegie-funded *An American Dilemma: The Negro Problem and Modern Democracy* was published.<sup>4</sup> Ford's Fund for the Advancement of Education underwrote the 1954 *Ashmore Report* on education segregation in the South, which contributed to the Supreme Court's *Brown v. Board of Education* decision. The Twentieth Century Fund in 1961 funded a poverty study.<sup>5</sup>

To be sure, policy research had impactful results at times, but critics of this approach were not hard to find, especially among the staff and leaders of community groups and civil rights organizations. Floyd McKissick, the national director of the Congress Of Racial Equality (CORE) candidly told a Ford Foundation vice president in 1965:

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<sup>3</sup> Barbara Shubinski et al., *75 Years of Engaged Philanthropy, 1940-2015*. Rockefeller Brothers Fund, 2015. [www.75.rbf.org](http://www.75.rbf.org).

<sup>4</sup> Gunnar Myrdal, *An American Dilemma: The Negro Problem and Modern Democracy*. Harper & Brothers, 1944. For Maribel Morey, *The Making of "An American Dilemma" (1944): The Carnegie Corporation, Gunnar Myrdal, and the Unlikely Roots of Modern Civil Rights Discourse*. Ph.D. Dissertation. Princeton University, 2013. <http://arks.princeton.edu/ark:/88435/dsp01000000097>.

<sup>5</sup> Alice O'Connor, *Poverty Knowledge. Social Science, Social Policy, and the Poor in Twentieth-Century U.S. History*. Princeton University Press, 2001, p.150.

People who work on these desperate [poverty-related] problems get very irritated with foundations which give \$25,000 to a man to write a book about the problems of the people who are trying to organize these communities, but then refuse to give a nickel to those people who are actually fighting the problems.<sup>6</sup>

Elsie Richardson, a leading community organizer in Bedford Stuyvesant since the 1940s, in 1966 told Senator Robert Kennedy:

We've been studied to death. The writers of sociology books have milked us of all the information. What we need is brick and mortar.<sup>7</sup>

These comments get to the core of the power dynamics of who defines the problem which philanthropic dollars might help solve, and who will carry out the work. If philanthropy is to address root causes, what was the root cause of the plight of African Americans at mid-century? Foundations collected social science theories such as Oscar Lewis's culture of poverty thesis, Richard Cloward and Lloyd Ohlin's delinquency and opportunity theory, and ideas about modernization, development, and acculturation. White racism or structural inequality were rarely the target of analysis or action.

The community action programs that the Ford Foundation pioneered in the early 1960s grew up in the context, and would become part of the War on Poverty during the Johnson years. Even if somewhat unclearly defined, sociologist Noel Cazenave argues that the ambiguity evidenced in the Ford Foundation's approach in fact enabled its community action programs to accomplish more than they may have had more appropriately-targeted structural change been more publicly apparent.<sup>8</sup> There were some successes, such as developing the Head Start program, but as a strategy, community action promised much more social change than programs could deliver.

The Field Foundation was one of the earliest to engage with racial issues in more direct, active ways, for instance, providing founding support for the American Council on Race Relations in 1944. Nearly two decades later, the Ford Foundation dabbled in community action experiments via its Gray Areas urban program, but under the leadership of Henry Heald, who was Ford president at that time, staff members understood there to be an unspoken "embargo" on race.<sup>9</sup> In that case, it was much easier to set up a minority fellowship program or support for HBCU's than it was to address complex structural racism and more contentious, controversial issues.

At the Ford Foundation, the terminology foundation staff members employed betrays their understanding of the problem they set out to solve. From 1966, its National Affairs division --

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<sup>6</sup> Floyd McKissick, National Director, Congress On Racial Equality (CORE) to Ford Foundation Vice President W. McNeil Lowry. "The Educational and Other Development of the Negro," 1965. Ford Foundation Records, Catalogued Reports FA739C, Report #006654, Rockefeller Archive Center

<sup>7</sup> Elsie Richardson to Senator Robert Kennedy, 1966, as recounted in a 2008 telephone interview. Op. cit. Brian Purnell (2012).

<sup>8</sup> Noel A. Cazenave, *Impossible Democracy. The Unlikely Success of the War on Poverty Community Action Programs*. Albany: State University of New York Press, 2007, p.48.

<sup>9</sup> Several Ford staff members of this period mention the race taboo. See, for example, Paul Ylvisaker's oral history. On Gray Areas, see Alice O'Connor, "The Ford Foundation and Philanthropic Activism in the 1960s" in Ellen Condliffe Lagemann, *Philanthropic Foundations. New Scholarship, New Possibilities*. Indiana University Press, 1999, pp. 169-194.

comprised of mostly African-American men -- had a program called “Social Development.” Like its Overseas Development program, Foundation staff would encourage the educational and technological progress of a target, “underdeveloped” population. The problem of American minorities was defined as one of assimilation, a cultural critique centered on the oppressed, rather than on the oppression itself. This approach, what Karen Ferguson calls “developmental separatism,” evidenced an analytical lacuna that left out root causes as fundamental as red-lining, job discrimination, and a lack of long-accumulated, intergenerational wealth.<sup>10</sup>

Civil rights organizations, especially the long-established NAACP and the National Urban League, received millions of foundation dollars during this period. The Rockefeller Brothers Fund, the Field, Ford, and Taconic Foundations since the 1950s were funding civil rights advocacy, which by the late 1960s evolved into a multi-pronged legal strategy. Public interest law and civil rights litigation were viewed as an impactful application of philanthropic dollars, since one case could theoretically change the lives of an entire population.<sup>11</sup> This strategy would eventually spread to other philanthropic endeavors, from environmental conservation to fighting apartheid in South Africa.

The legal strategy seemed especially promising after victories of the Civil Rights Act (1964) and the Voting Rights Act (1965). In 1966, new leadership at the Ford Foundation meant that race was no longer verboten. Ford’s new president McGeorge Bundy outlined the new priorities in a speech he gave at the National Urban League’s annual meeting:

We will not attempt to work through any single chosen instrument or in any single field of activity. We think the familiar listing of jobs and education and housing is right, but not exhaustive. We shall do what we can to help in these fields. But we would add four concerns -- for leadership -- for research -- for communication -- and for justice.<sup>12</sup>

We’ve seen that leadership, communication, and justice were already fields in which philanthropic foundations were comfortable. They are fields that would continue for decades to offer the most impact for the grant funds spent. What Bundy deemed the “familiar” areas of jobs and housing would in fact be much more difficult. Two years into Bundy’s term, Ford would go public with a new financing instrument, the PRI, to attempt to do so, in a new era of supporting black capitalism.

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<sup>10</sup> Karen Ferguson, *Top Down. The Ford Foundation, Black Power, and the Reinvention of Racial Liberalism*. Philadelphia: University of Pennsylvania Press, 2013, p. 50.

<sup>11</sup> Robert McKay, “Civil Rights Litigation: A Report to the Ford Foundation.” 1976. Ford Foundation Records, Catalogued Reports, FA739A, Report 002729, Rockefeller Archive Center.

<sup>12</sup> “Address by McGeorge Bundy, President, the Ford Foundation, Annual Banquet, National Urban League, Inc., Philadelphia.” August 2, 1966. Ford Foundation Records, Catalogued Reports, FA739A, Report #002908, Rockefeller Archive Center.

## From Political Rights to Economic Empowerment

“After politics, economic power automatically flows. We are going to work on a total program.” Floyd McKissick, National Director, CORE, 1967.<sup>13</sup>

From the point of view of the foundations, economic empowerment would be a new field of activity. But it is worth emphasizing that economics had always been part and parcel of the civil rights movement, at least as far back as Marcus Garvey’s economic black nationalism in the 1920s. The boycotts organized in the postwar years were a show of collective economic power, and many of the Civil Rights movement’s political demands would have the effect, it was hoped, of equal participation in American economic life through jobs, commerce, and housing.<sup>14</sup> Self-improvement activists in the 1950s and 1960s, such as Bedford Stuyvesant’s Elsie Richardson, focused first on housing and jobs.<sup>15</sup> Since the late 1940s, Philadelphia’s Reverend Leon Sullivan, discussed below, had been using economic tactics for community self-improvement, organizing “selective patronage” campaigns around the slogan “don’t buy where you don’t work.” Many credit these campaigns for removing discriminatory hiring practices at dozens of firms.

There was consensus that economics was fundamental to the black struggle, and from that assumption emerged a wide range of ideological approaches among the African American community. What would full economic empowerment would look like? Some in the Black Power movement advocated for separatism, to create a separate, self-sustaining economy entirely. Others adopted the anti-colonial, anti-capitalist goal of contesting the capitalist system itself. But the approach most adopted was a middle ground, an attempt to assimilate into the capitalist mainstream, to make capitalism work so that African Americans would not just work for the system but rise within it.

### The Birth of an Idea

Two philanthropic leaders are key to the birth of the PRI: John Simon of the Taconic Foundation, and Lou Winnick of Ford. Winnick’s work on cities ran into economic development issues, especially in the area of housing. Winnick thought that housing would be prime for “social investment,” since buildings would produce rent income. But before 1966, he ran into opposition from the Ford Board Chair, John McCloy. Winnick’s director, Paul Ylvisaker recounted the story in his oral history:

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<sup>13</sup> “We Want Control, Says CORE Director,” December 9, 1967, *Cleveland Plain Dealer*. Op. Cit. Nishani Frazier, *Harambee City. The Congress of Racial Equality in Cleveland and the Rise of Black Power Populism*. Fayetteville: The University of Arkansas Press, 2017, p. 161.

<sup>14</sup> For extensive examples of such economic action campaigns, see Michael Ezra, ed., *The Economic Civil Rights Movement. African Americans and the struggle for Economic Power*. Routledge, 2013. See also Laura Warren Hill and Julia Rabig, “Toward a History of the Business of Black Power” in Laura Warren Hill and Julia Rabig, eds., *The Business of Black Power. Community Development, Capitalism, and Corporate Responsibility in Postwar America*. University of Rochester Press, 2012, p.23.

<sup>15</sup> Brian Purnell, “‘What We Need is Brick and Mortar.’ Race, Gender and Early Leadership of Bedford-Stuyvesant Restoration Corporation” in Laura Warren Hill and Julia Rabig, eds., *The Business of Black Power. Community Development, Capitalism, and Corporate Responsibility in Postwar America*. University of Rochester Press, 2012, pp. 217-244.

“I said, ‘Mr. [John] McCloy among the ideas that I think you ought to take seriously is the use of the investment portfolio for social purposes.’ And he snapped back right away, ‘No!’ He said that this wouldn’t survive the prudent investor, you know, the responsibility kind of thing, and he said, ‘It’s a nice idea, but it ain’t going anywhere.’ [...] This one was a clear ‘No.’ But then Lou Winnick kept nibbling at it when Bundy came on and by this time the idea of economic development corporations was beginning to make more sense. And I think you’d have to attribute that to Lou Winnick who go the notion, moved it, worked with it, and finally it became accepted despite McCloy’s first reactions.”

<sup>16</sup>

McCloy was correct that there was also the issue of the regulatory environment and the “prudent investor rule,” specifically section 4944 of the U.S. tax code, which penalized charitable foundations that made investments which jeopardized the foundation’s charitable purpose.<sup>17</sup> But John Simon was already on the case.<sup>18</sup> Winnick got to work and in the summer of 1968, an information paper circulated among the Ford Foundation’s board of trustees. It focused first on the economic argument for implementing a “Program-Related Investment Account (PRIA)” as the Ford program was called. Cost effectiveness and the seizure of new program possibilities “in minority enterprise, housing and conservation where financial aids other than outright grants could achieve philanthropic goals meant that “the philanthropic dollar could be stretched further to do double, triple, or even higher multiple duty.”<sup>19</sup>

A second major argument was that such investments would broaden the constituency of beneficiaries of foundation funds, and draw in previously untapped private resources. Ford’s PRIA, it was hoped, could “[spring] loose the resources of banks, insurance companies and other private investors not hitherto prominently associated with our grant-making operations.”<sup>20</sup> The Board of Trustees approved a \$10 million PRIA, with National Affairs programmatic goals. A first cohort of recipients was soon chosen. Position papers and a press release were published.

One of the first projects in the PRI portfolio was led by Rev. Leon Sullivan. He had already mobilized community donations to form the the Progress Movement community development corporation and its Zion Non-Profit Charitable Trust. In 1968, the Ford Foundation loaned

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<sup>16</sup> *Interview with Paul Ylvisaker. Ford Foundation Oral History Project. September 27, 1973. Ford Foundation Records, FA618, Box 4, Folder 82, Rockefeller Archive Center.*

<sup>17</sup> For background and discussions about this section in the context of the Tax Reform Act of 1969 and Program Related Investments, see “Subject Analysis - Investments and Program-Related Investments,” Tax Reform Files, Council on Foundation, Inc. Records, Box 4, Folder 33, Rockefeller Archive Center.

<sup>18</sup> “We are arguing before the Internal Revenue Service that where the investment in the business enterprise is expressly made for the purpose of expanding economic or housing opportunities for need persons or minority groups, in line with a charitable organization’s program there can be no legal objection.” John Simon, “Proceedings,” attached to memo from John Simon to Robert Bates, January 27, 1969. RBF Records, RG3.1 - Grants, Box 2677, Folder 1632, RAC.

<sup>19</sup> The 1968 Information Paper was summarized in a 1970 Ford Foundation progress report, “Information Paper. Program Related Investments: Two Years Later. A Report on Progress and Problems in PRIA.” Ford Foundation Records, Catalogued Reports FA739A, Report #002129, p.2, Rockefeller Archive Center.

<sup>20</sup> *Ibid.*

Sullivan's group a half-million dollars in preferred stock to help build the Progress Plaza shopping center, the country's first shopping center owned and run by African Americans.<sup>21</sup>



Progress Plaza, Ford Foundation Photographs, FA738, Box 106, Folder 1902, RAC.

If Ford's Lou Winnick contributed persistence to the endeavor, Taconic president John Simon was PRI's convenor, lawyer, and spokesman to the philanthropic community. Beginning in late 1967, he brought together a dozen foundation representatives to discuss a project that came to be called the Cooperative Assistance Fund (CAF).<sup>22</sup> The idea was to create a financial intermediary to pool resources and support for-profit minority enterprise. Questions arose about the tax status of CAF, whether individual foundation charters allowed for such investments, who would serve on the board, what the selection criteria would be. Detailed meeting records trace the creation of CAF, which received its 501 (c)(3) status in January 1969. A few foundations decided not to participate (notably Carnegie), while others (Ford, Rockefeller Brothers Fund) contributed grant fund to cover operating costs, rather than commit to the investment pool itself.

<sup>21</sup> See Stephanie Dyer, "Progress Plaza. Leon Sullivan, Zion Investment Associates, and Black Power in a Philadelphia Shopping Center" in Michael Ezra, ed., *The Economic Civil Rights Movement. African Americans and the Struggle for Economic Power*. Routledge, 2013, pp. 144-162.

<sup>22</sup> The initial meeting participants came from the Field Foundation, the Aaron E. Norman Fund, the Ellis L. Phillips Foundation, the Taconic Foundation, the Ford Foundation, the New York Foundation, the Rockefeller Brothers Fund, Carnegie Corporation, the Southern Education Fund, Spectamur Agenda, and the Stern Family Fund.

All the while, John Simon was making the case for this kind of investing to the broader foundation community. He gave a speech in 1968 at the Council on Foundations, explaining the PRI concept as a mechanism to meet civil rights and racial justice goals:

Many of us have found that the achievement of some of our stated purposes -- the expansion of economic development or housing opportunities for the poor, particularly the Negro poor -- is impeded because of restricted access to debt and equity capital markets.<sup>23</sup>

Simon cited a New York Urban Coalition report, which stated that there was “virtually no source of venture capital” and that minority entrepreneurs “cannot raise the capital” necessary to seize business opportunities.<sup>24</sup>

This was about more than money, of course. Simon saw in the PRI an opportunity to contest the traditional grantor-grantee relationship:

“A grant has a paternalistic note to it, especially if you give money to a group which is out to show that it is a viable economic enterprise that can demonstrate its success in the market. If you make an outright contribution instead of an investment, you do not express your trust in its business prospects and will be unlikely to achieve the purpose of encouraging this kind of enterprise.”<sup>25</sup>

Some foundation representatives encountered issues with trust when it came to the makeup of the staff they were working with. Ironically, the Rockefeller Brothers Fund minutes from the January 24, 1969 meeting recorded a contentious discussion about adding “black professionals” to the CAF board of trustees. “There was some resistance to the latter idea” the minutes read, “and, after considerable discussion, the matters of size and composition of both the Board of Trustees and the staff, as well as specific suggestions of possible non-foundation trustees, were delegated to a committee of four.”<sup>26</sup> They eventually hired an African American to run the CAF.

## Expectations and Aspirations

The archival record of the PRI origin story is steeped in optimism about the success of profit-driven solutions to social problems and in the language self-help, self-fulfillment, and community empowerment. John Simon’s view was that CAF investments should go beyond

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<sup>23</sup> “Proceedings,” attached to memo from John Simon to Robert Bates, January 27, 1969. Rockefeller Brothers Fund Records, RG3.1 - Grants, Box 2677, Folder 1632, Rockefeller Archive Center.

<sup>24</sup>New York Urban Coalition, *Strategy for Economic Development in Ghetto Areas*, 1968. Op. cit. John Simon Speech to Council on Foundations. RBF Records, RG3.1 - Grants, Box 2677, Folder 1632.

<sup>25</sup>“Proceedings”

<sup>26</sup> Ibid.

supporting minority enterprise to instead target broader economic development of or social services for minority communities.<sup>27</sup> A Ford report asserted:

Minority enterprise appears to have a unique potential for restructuring the ownership and leadership patterns of poverty areas in ways that cannot be achieved by better jobs and housing. The future may, of course, prove our view to be wrong.<sup>28</sup>

Like many new endeavors, the PRI may have promised more than it could fulfill. Initial assessments were mixed, but in Ford's case, that foundation's commitments at least had a multiplier effect of an estimated five outside dollars amassed for every one Ford dollar invested. PRI's often complemented rather than replaced grants. While PRI's increased the pool of resources to advance social goals, grants were necessary to pay for technical assistance and leadership development and other non-recoverable costs. And it was immediately apparent that PRI's cost more to administer than grants.

Finally, an ideological issue was left unresolved: did the PRI represent a risky endeavor for the benefit of social justice? Or was adopting private sector mechanisms giving into the structures that may contribute to the problem? Dr. Vivian Henderson, an economist, university president, and Ford's first African American trustee, was concerned:

The Program Related Investments I'm afraid are becoming very conservative; we're now becoming bankers. [...] We're not taking any risks any more. We're now examining every damn proposal just like the First National Bank of Chicago would examine it. [...] I might raise a question about that behind closed doors and see if I might shake a little bit of it up.<sup>29</sup>

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<sup>27</sup> Harvey Shapiro, "The Difficult Art of Mixing Philanthropy and Business. An Assessment of a Grant to the Cooperative Assistance Fund." Project Evaluation, Division of National Affairs. 1972. Ford Foundation Records, Catalogued Reports FA739A, Report #02211, Rockefeller Archive Center, p.7.

<sup>28</sup> Ibid., p.42.

<sup>29</sup> Interview with Dr. Vivian W. Henderson for the Ford Foundation Oral History Project. April 16, 1973. Ford Foundation Records, Oral History Project FA618, Box 35, Folder 182, p.36.

# Ford Foundation PRI Commitments, 1969

