

Poverty and Development in the American South: Can Philanthropy Play a Role?

By Karl Stauber

Looking Back—The Great Transformation¹

Over 100 years ago in a small southern town, my maternal grandfather, along with other white male leaders, engaged in a radical act—they created a chamber of commerce. Today it is hard to see the creation of a chamber of commerce as a radical act. But 100 years ago it was an attempt to break free from the post-Civil War depression that was affecting most of the rural South. It was an attempt to break free from the landowner-dominated agrarian economy and become part of the mercantile and export-oriented economy that was more common throughout the rest of the nation.

These were not remarkable people engaged in noble acts. Instead, many of them were the sons of the fallen southern aristocracy, one generation removed from being slave owners. But these men looked at their situation and realized that continual reminiscences about how things used to be were not going to improve their current situations. So they began to create the new institutions needed to transform their local economy. Their efforts foreshadowed what would take a century to fulfill. In the process, they decided to participate in economic changes occurring throughout much of the Western world, to create what some called "the New South."

Those economic changes were beneficial to many southerners—in the beginning, especially the sons of white privilege who had access to quality education and were willing to work hard. It would be more than another half century before similar opportunities were more broadly available for blacks and women.

Much of the twentieth century was a time of economic and cultural transformation in the South, for virtually all communities. Many of those transformations were positive for large segments of the population. In the first three-quarters of the century, large numbers of blacks and whites left the region for opportunities elsewhere. Many of those who did not leave the region moved from rural communities to urban centers.

Three great forces came together in the South in the last half of the twentieth century—the Civil Rights Movement, the investment and intervention of the federal government largely as response to that movement; and the region's economic awakening.

1. The economic awakening of the twentieth century was a time of uneven but remarkable progress in the South. The economic awaking was the product of intentional, transformative strategies:

- low-skill, recruited manufacturing supported by an expanding community college system,
- visible progress in race relations making the region more attractive to external investors, and

- the development of high-quality research universities to stimulate high-tech entrepreneurial enterprises.

Through these strategies, the South has experienced the nation's most dramatic economic growth.

Led by a generation of leaders whose worldview had been transformed, directly or indirectly, by World War II, these mostly white men were determined to "grow the South" and become millionaires in the process. And they did. Rather than simply staying with the old economic engines of agriculture, forestry, and small-town retailing, these leaders focused on how to create and benefit from new competitive advantages. Building on the infrastructure investments that had occurred throughout the South during World War II, they caused their region to become competitive in wages (often based on low wages and anti-union tactics), recruit industries from the North with subsidized loans for building new plants, provide free infrastructure upgrades to reduce the costs of facilities, and generally create a "business friendly" environment. So whether it was building local businesses into world competitors (the Waltons in retailing or the Hanes in hosiery) or developing manufacturing centers (Spartanburg in high-tech machine manufacturing or Tupelo in upholstered furniture), the economic awakening worked.

2. But it is critical to remember that the region also benefited from major federal interventions and investments during this period. One of my earliest memories of legal segregation or American-style apartheid was at the doctor's office when I was six years old. The doctor reflected the norms of the community. But within a year or two, his office was integrated, partly because the federal government, through insurance-like programs, gave him a stark economic choice. He could desegregate his practice and continue to receive third-party payments via federal programs, or he could face probable bankruptcy. He was not *forced* to change, but he was strongly encouraged.

The federal government, under a series of interventions, some from Congress and others from the courts, provided both "carrots and sticks" that helped transform the South. In one generation—my lifetime—the South has gone from being a rural, backward region with America's greatest concentration of poverty to a region that is more like America than distinct from it. While it is easy to claim that the South's progress is "homegrown," one wonders what the region would be like today without the Civil Rights and Voting Rights acts and the massive federal investments that created everything from interstate highways to industrial development parks, affordable housing, and local water and sewage systems. In many ways, the success of today's South can be seen as a remarkable example of how federal interventions can make a difference. If the Bush Administration wants an example of nation-building in a significantly hostile environment, they should look at the role of the federal government in the transformation of the American South from 1950 to 2000.

3. The role of the civil rights movement in the transformation of the South cannot be overstated. It is hard to imagine how the South would have fared in the last half of the twentieth century without that movement. In many ways, the Civil Rights Movement forced the South to evolve from a semi-feudal economy into liberal capitalism (liberal in the sense of respecting private property rights and full suffrage).

Blacks returning from World War II and then from the Truman-integrated army of the Korean War were often unwilling to return to the old economic and political situation. Many of them went north to work in better-paying industrial jobs in sectors such as steel and automobile manufacturing. The economic and social opportunities for blacks in the North set a new standard for their families still in Southside Virginia or the Delta of Mississippi, Arkansas, and Louisiana. While the northern experience was often very challenging, people got paid real wages for real work. And a portion of those wages often made their way back south to help finance the Civil Rights Movement.

The civil rights movement shone the bright light of national and international shame on the South. The old arguments of "our coloreds like it this way" or "that's the way it's always been" no longer held currency. Black teenagers of the South standing before water cannons, police dogs, and spitting white mobs could not be seen simply as the work of outside agitators. In many ways, the conflicts of the civil rights era were the final battles of the American Civil War—a war not just about slavery but also about America moving from agrarianism to a modern industrial economy. Without the Civil Rights Movement, the South would not have received massive federal interventions. Without the Civil Rights Movement, the South might not have made the transformation to being an important part of the world economy—instead, like parts of Ireland, southern Spain and Italy, the South would have had to wait decades for the needed external interventions. Without the Civil Rights Movement, the new generation of black leaders and the new black middle class would not have emerged. One indicator of the success of the great transformation is the reversal of black migration from the South. By the 1990 the tide had turned an older blacks were retiring from the North to "homecoming" communities and younger blacks were seeking opportunities in urban centers.ⁱⁱ

Philanthropy played an important yet comparatively minor role in the great transformation of the last half of the twentieth century. It helped to support some of the leaders of the Civil Rights Movement. It also provided some of the connections that helped the Civil Rights Movement "shine the light" on the poverty and discrimination endemic in the South. Philanthropy also helped create some of the models the federal government used in making massive investments in the South. Finally, some of the New South business leaders benefited from educational and developmental experiences underwritten by philanthropists.

Overall, however, philanthropy was a "bit player" in the South's great transformation. The Civil Rights Movement was financed largely by contributions through community organizations such as NAACP and Black churches. While philanthropy helped create models such as community development corporations, it was massive federal investments that took the ideas to scale. And although philanthropists did provide some resources during the great transformation, almost all those resources came from the North rather than the South.

Looking Forward—New Immigrants in a New Economy

Communities and regions spiral up or they spiral down. The South has been spiraling up for so long that many southerners have forgotten that decline is an option. The South also has a history of long spirals up and long spirals down. It will be interesting to see 100 years from now whether the South is seen as spiraling up or down for the first half of the twenty-first century.

In many ways, the South has lost its competitive advantage as much of the rest of the world has adopted and adapted the Southern Model. India is a great example of the New, New South—bright young entrepreneurs from the upper classes, many of them trained at universities in the United States and Europe; competitive low-wage, low-skill manufacturing supported by training programs and government subsidies; and a rapid increase in the quality and number of research universities. Like the American South, India has massive problems of poverty, discrimination, and underinvestment in infrastructure to overcome.

But just as the model was largely successful in the South, incomes are rising in India and poverty is declining. The model has spread around the world, and the South has lost its predominant competitive advantage of the last half century. Today, the economy of the South, and of the nation, is more competitive, more global, more integrated, more flexible, less controllable by trade barriers and other policy impediments, and less respectful of locality.

So today, we are all immigrants in the new economy. And the new economy is part of the new culture and political system. The decisions of the World Trade Organization may be more important to your community's future well-being than your state department of economic development or the Congress of the United States. Monetary policy in China can make or break your local manufacturer.

But what is it to be a new immigrant in the new economy? My paternal grandfather arrived in the United States from central Europe 120 years ago. He had skills; he was a stone mason. He probably did not speak much English, and he did not know how to succeed in his new circumstances. But when he arrived in New York City, there were institutions to help him be a successful immigrant in what was a new economy. His children experienced poverty when he was killed in an industrial accident, yet within a generation, they had moved into the middle class through education and training, hard work, and plentiful opportunities. Like many European immigrants of the late nineteenth and early twentieth centuries, the family was in a tenuous situation in the beginning and was solidly middle class in a generation. My family became middle class, in part, because of institutions such as settlement houses, church-based welfare programs (then it meant helping people fare well), free public education, and land grant universities. As a nation and region, we have faced economic and cultural transformations before and largely succeeded (especially if you were white) based on public and private investments.

Economic Engines

Communities and regions must have viable economies if they and their residents are to prosper. They must have strong, competitive economies if they are to reduce poverty and expand the middle class. Too often, social advocates seem to forget the crucial role of the economy. Similarly, business advocates too often forget that economic growth disproportionately benefits those who are already wealthy. For social interventions to succeed, they must be tied to strong economies. For public economic development to continue and maintain broad public support, it must clearly benefit all, not just the wealthy.

As experience in Latin America demonstrates, limited class mobility can be a source of civil unrest. According to a 2001 study by the Inter-American Bank, the son of a blue-collar worker in Mexico has a 1-in-10 chance of getting a white-collar job (in the U.S., the figure was 3 in 10)ⁱⁱⁱ. So the South's new economic engines must intentionally address the class and race divides, as they did in the last half of the twentieth century through the interventions of the civil rights movement and its federal government allies.¹

The South will continue to produce millionaires. But the well-being of the top 10 percent is the wrong way to measure progress. We don't need be overly concerned about the rich; they have the ability and the opportunity (there should be no guarantee) to sustain their position. Progress should be measured based on growth in the assets of the bottom economic quintile and the growth and stability of the middle class.

So what is the new economic model for the South? We know three critical things about that new model:

- "Communities and firms without competitive advantage will not prosper—they lapse into decline or subsistence.
- "Nations, communities, and firms that prosper constantly invest in creating new competitive advantage rather than protecting old advantage. Risk-taking entrepreneurs are one of the keys to the continual seeking.
- "Economic improvement and growth alone are not enough to sustain communities. They are necessary, but not sufficient. Communities that survive and prosper also invest in building the social and human capital of their institutions and people. But communities with high social and human capital and declining economic opportunity are not likely to have positive futures."^{iv}

But we don't yet know what the new economic engines will be or whom they will benefit. We don't know what the new transformative institutions are and how they will support the new economic engines. We don't know what interventions are needed to ensure that the new engines produce broad benefits rather than a new cultural and economic divide.

More than Economics

As the third point above notes, economic growth is necessary but not sufficient. It is particularly insufficient if you question the old adage, "a rising tide lifts all ships."

America has a long history of creating institutions designed to accelerate and expand the benefits of economic strategies. The public Postal Service (the Internet of its day), from the time of Ben Franklin, was intended in part to promote economic activity. The taking of land from the Indian tribes was intended to support western expansionism and agricultural economies. Publicly supported or protected transit systems were to encourage commerce and trade. The creation of the Patent Office was to protect private property and encourage innovation. The development of the first public agricultural research program, modeled after the work of a private philanthropist in England, was intended to help farmers—the majority of Americans at that time—move from

¹ Some have suggested that such an idea is "class warfare." I suggest that the presence of this idea is the prevention of class warfare. KNS

subsistence to prosperity. The creation of public forests by the federal government was to assure a steady flow of fiber to support the growing American urban economies. Similar examples can be found in the nonprofit community.

But Where Are the Agents of Change?

As the last century of transformation in the South demonstrates, economies are not self-organizing entities, especially if we expect the economy to grow *and* to reduce poverty. Economies require periodic public investments and community direction. Public and private non-market forces can have a major impact on the rate and the direction of economic change, and on who benefits and how. These non-market forces rarely *cause* the transformation, but they can help to *focus* it. The Civil Rights Movement, massive federal investments, and a new economic model combined to transform the South for many, but not all, southerners in the last 50 years.

But now the Civil Rights Movement is at best mature and at worst moribund. The federal government is in decline, at least as it relates to the types of programs that were part of the War on Poverty and the New Frontier. Citizens have lost much of their faith in the ability of public-sector initiatives to transform communities. At least since President Reagan's first inaugural address, the accepted view has been that government, especially the federal government, is part of the problem, not part of the solution. The old economic engine of low-wage, low-skills manufacturing has been successfully exported. Economic globalization is having a major negative impact on many southern communities (just as the movement of textile and manufacturing jobs from the North devastated many blue collar communities).

So the three great forces that transformed the South are gone or in decline. Without new sources and direction of intervention, the South will most likely spiral down for the foreseeable future, poverty will increase, and the economic gap between the bottom and the top will grow. While some will see such a growing economic gap as a natural event, one only has to look at countries such as Argentina and Chile to understand the disruptive and negative consequences for all. Without common hope and benefit, the common good is merely rhetoric to justify the continuation of privilege.

A New Role for Philanthropy?

Wealth in the South has grown dramatically in the last 25 years. Will southern wealth help finance and lead the next transformation, or will it play a background role? There will be winners and losers—individuals, communities, and regions. Can philanthropy make a difference in who those winners and losers will be?

It is likely that much of the wealth in the South will be used for charity. Charity is a tradition stemming from the Middle Ages and is based on the assumption that the poor and the suffering will always be with us, and we should do our best to "improve their condition." "Charity, with its largely palliative orientation, is rooted in many religious traditions, as are many charitable nonprofit organizations. Charity is based on the belief that suffering is an endemic human condition and that we have a moral responsibility to reduce the suffering of innocent victims."^v

Philanthropy, on the other hand,

"emerged from the rational optimism of the eighteenth and nineteenth centuries. Philanthropy strives to be transformative in its approach. It is based on a belief in the improvability, if not the perfectibility, of the human condition through societal actions—changing social conditions that cause or allow human deprivation. While its conceptual framework is European, philanthropy has reached its fullest expression in the United States. Rockefeller's and Carnegie's efforts to reform American medical education in the late nineteenth century and Gates' work to transform public secondary education are examples of intentional, philanthropic efforts to improve humankind by changing social systems."^{vi}

Both charity and philanthropy are required. We need both Red Cross and Peace Corps–type efforts. But charity does not produce transformations.

Will philanthropy in the South engage the questions of economic and social decline, or will it leave this role to others? If it is left to others, where will the next iteration of leadership come from? Southern philanthropic organizations can stimulate, lead, and finance the debate about the next generation of transformation. Perhaps they already are, but the debate must be one of the dominant topics of public discourse if it is to have the needed impact. The debate must be part of the discussion in local cafes and civic organizations throughout the region.

Part of the debate should be about *how* and *where* to intervene. The following suggests one possible set of answers, but these answers must be locally and regionally owned if they are to work. The answers must be practical and implementable if they are they are to stick. As Malcolm Gladwell suggests in *The Tipping Point*, there must be an epidemic of ideas and practice if the South is to reduce poverty and build stronger communities.

Three Keys to Transformation?

If the South is to succeed in the next transformation, three things must occur roughly together and with some level of coordination:

1. *New economic engines* must be stimulated that create wealth, expand the middle class, and reduce poverty.
2. *Human capital* required by the new economic engines must be developed and must be accessible to all.
3. *Community capacity* must be increased and maintained to assure that the previous two things happen and that the benefits are broadly distributed.

But philanthropic resources by themselves are small, so at a time of declining government resources focused on transformative activities, the fundamental strategic question for philanthropists is, how to get to scale? If philanthropy does not have strategies for getting to scale, it is simply stuck at the margin of societal activity. Philanthropy can help to put poverty, racism and economic segregation back on the legitimate public agenda in the South and the

Nation. Philanthropy can help to identify which interventions and strategies are producing tangible results, and which should be dropped.

Funders on the Left tend to shy away from economic issues, especially economic development. In fact, some leftist funders believe that the economy causes poverty. Funders on the Right have tended to be uncomfortable with efforts to increase community capacity because they see it as giving "different" people power—power that might lead to questioning the privileges of the privileged. Many funders provide resources for human capital development, but they often think of it as helping individuals succeed rather than systems change.

Can these three ideas be brought together in common purpose? Can they be brought together in ways that benefit entire communities, not just individuals or small groups? If these aren't the right three approaches for addressing poverty reduction in the South, then what are? And will Southern philanthropy play a role in bringing together the diverse forces needed to reduce poverty? If not philanthropy, then who? And if some philanthropic organizations decide to take this on, will they be able to sustain their commitment for the 20 years that such an effort requires? And will they be willing to take the heat from both the left and the right that such an effort is sure to experience?

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ⁱ With apologies to Karl Polanyi, *The Great Transformation: the political and economic origins of our time*, 1944.

ⁱⁱ Suggested by Jason Gray.

ⁱⁱⁱ As referenced in Luhnnow, David, and John Lyons, *The Wall Street Journal*, July 18, 2005, column 1, page 1.

^{iv} Stauber, Karl N., "Why Invest in Rural America—And How? A Critical Public Policy Question for the 21st Century" in *Economic Review*, Federal Reserve Bank of Kansas City, second quarter 2001, p. 43–44.

^v Stauber, Karl N., "Money Talks—But What Do We Want It To Say?" Presented to Dialogues on Civic Philanthropy, Washington, D.C., March 17, 2005.

^{vi} Ibid.