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## Think Tanks For Freedom: A Snapshot Of The U.S. Market

By: Alejandro Chafuen – February 13, 2013

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During these last three decades, think tanks have been the typical milieu of intellectual entrepreneurs. Those who discover the need for new ideas, policy solutions, or educational programs, need an organization to manage the resources they attract, and then allocate them in pursuit of their goals. That is where the structure of a think tank comes into play.

While in business most entrepreneurs are attracted by the potential for material profits, the intellectual entrepreneur tends to be driven by a different type of psychological and rational calculation. I suspect that most act in order to make society better according to their own vision of an ideal society. When the work of intellectual entrepreneurs is carried out in not-for-profit endeavors, those who provide material resources are called donors rather than investors. Some, especially board members, volunteer with their labor.

How do donors decide whom to fund? Like in any other market, different people seek different products and services. Most start by figuring out the basics of the product they want, say a car, and then try to learn about their qualities. In this case they study the think tanks considered for funding. I will focus this piece on the work of one grant-making foundation which supports approximately 50 think tanks, with over 90 percent located in the United States: the Chase Foundation of the Commonwealth of Virginia.\* To qualify for support, the institutes need to be committed to the principles of the free society especially in the economic sphere. In addition, organizations need to certify that they do not receive money or in-kind support from governments or agencies (federal, state or local).

The combined budget of Chase-supported think tanks is approximately \$220 million annually. Chase does not support the large, more conservative think tanks such as the Heritage Foundation, The American Enterprise Institute, or the Hudson Institute. I estimate that if we combine the budgets of these and other conservative free-market think tanks—which are not supported by Chase—the entire U.S., Canadian and U.K. market of pro-free society groups is approximately \$500 million. The sample of Chase, over 40 percent of the market, is very relevant.

To put this number in perspective, the four top “fund-raising” universities, (Stanford, Harvard, Yale and MIT) each received more than \$500 million in donations in 2011. Corporations with the average income of a Forbes 100 list, such as General Electric, or Venezuela’s PDVSA, earn that income in little more than a day. Trade associations, from the “left” and “right” of the political spectrum, have revenues that dwarf that of think tanks. In 2011, for example, The National Education Association had over \$360 million in revenues, the American Petroleum

Institute, over \$180 million in 2010. First conclusion: at least by budget, free-market think tanks are not the “monsters” their enemies pretend them to be.

Over a decade ago, one of the non-family trustees encouraged the Chase foundation to develop a questionnaire which, in one page, would provide a “picture” of think tanks. The goal was to use this information as a tool to decide levels of support. The questionnaire usually has 10 questions. Over the years it has included approximately 30 different questions. Some information—such as up-to-date salaries, and a few measures of impact and efficiency—remains confidential. This is complemented by relevant data from public documents, such as the I.R.S. (form 990). What follows are some trends that emerge from over 10 years of data collection and analysis:

Until 2011, foundations were the largest source of support of think tanks, yet during the last two years, donations by individuals have become the single largest source. On average, corporations contribute approximately 10 percent of the income of the institutes in the sample. This is down from 18 percent since 2000. Roughly half of the organizations reported that individual donors are the biggest source of support: 48 percent of the income comes from individuals and 40 percent from foundations. Just 2 percent came from other sources, mostly from magazine subscriptions of the few think tanks such as Reason Foundation that publish a magazine. Second conclusion: market-oriented think tanks are simply not the tools of corporations.

Prior to 2011, it was mostly the largest organizations, such as the Cato Institute, which were able to list individual donors as their main source of support. Increased use of direct mail, in combination with a more politicized environment leading to last year’s election, has helped change the income structure. The assets of large conservative foundations suffered two big blows: the tech bubble burst in 2001 and the 2008 market debacle. This also contributed to a relative decline of foundation support. Few of the large foundations committed to market-oriented reforms have recovered from these shocks.

Although during this last decade the total income of think tanks doubled, the growth slowed down since the 2008 crisis. Only the large advocacy pro free-market organizations, such as Americans for Prosperity and FreedomWorks, were expecting huge increases in donations for 2012. Their tax-returns are not available yet, but their main focus on advocacy has created a healthy debate about their role in the market. Should we include as part of the think tank market those organizations that focus almost exclusively on advocacy?

Are think tanks neglecting research? Although three quarters of the think tanks reported that they conduct research, only 10 percent regarded research as their most successful product. Advocacy and educational programs are becoming more popular. The lack of original research and an increased focus on dissemination and communication might explain the growing role of university- and college-based centers.

I leave for future columns an analysis of other trends: the growing diversity in the think tank product mix; the huge differences in cost-effectiveness, and fund-raising expenses; and the growth of endowments or quasi endowments. For intellectual entrepreneurs and their donors, few things should be more important than the analysis of outcomes. Think tanks have been using very different measures of success and much more work needs to be done in this field. As in other fields, competition among think tanks will gradually lead to innovation in programs and

measurements. Then, hopefully, intellectual entrepreneurs will have even more tools to contribute to a more vibrant and prosperous civil society.