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## ***VOLUNTARISM AND THE REAGAN ECONOMIC PROGRAM***

### **INTRODUCTION**

In recent speeches, President Reagan has stressed the voluntary sector as a crucial element in his strategy to alter the balance between the government and the people in American society. "Voluntarism is an essential part of our plan to give government back to the people," Mr. Reagan declared October 5 before the National Alliance of Business. He then announced the formation of a Presidential Task Force on Private Sector Initiatives, to be headed by Armco Inc. chairman William Verity, which will examine ways of stimulating voluntarism.

Considerable attention has been given to the feasibility of employing the voluntary sector as an alternative source of funding to offset the 1981 budget cuts in welfare and other programs, but Reagan has made it clear that he views the sector as far more than a new source of finance for reduced federal programs. It is a key part of the Administration's policy of moving the provision of services as close as possible to their intended recipients, so that local needs and sources of assistance can be blended. Strengthening the "mediating structures" between government and the individual -- voluntary associations, churches, foundations, neighborhood groups, etc. -- is seen as important in reinvigorating the bonds of community. The growth of the voluntary sector is also viewed by the Administration as necessary to the effective rebuilding of notions of social obligation and "good neighborliness" -- fundamental features of American society that have been eroded by the growth of government.

Many representatives of the voluntary sector, however, seem to doubt that it can respond fully to its challenge and opportunity. Some analysts have argued, for instance, that tax law changes in 1969, together with the explosion of state and federal regulations concerning fundraising and other charitable activities,

have caused stagnation in the sector. If this trend is not reversed, it will be impossible for philanthropy to reach its full potential.<sup>1</sup> Others go even further, by maintaining that at the very time the Reagan Administration is advocating an expansion of voluntarism, its 1981 tax and budget package actually will discourage charitable giving. A controversial Urban Institute study commissioned by the Independent Sector, an umbrella group of non-profit organizations, maintains that the budget and tax portions of the 1981 Economic Recovery Program will cost charities at least \$45 billion during the 1981-1984 period, compared with what would have been available without the changes.<sup>2</sup> Independent Sector President Brian O'Connell claims that the Reagan Administration has delivered the voluntary sector a:

triple whammy....Federal program support has already been cut, contributions are now projected to go down, and all this at a time when everyone is looking to these same organizations to expand their services.

Yet the assumptions on which the Urban Institute study are based are open to serious challenge. When the assumptions are examined carefully, it becomes evident that much of the extreme pessimism of the charitable organizations is unwarranted. While there are tax and regulatory obstacles to philanthropy which could be removed, there are also good reasons to suppose that the "gap" left by the budget cuts is smaller than the critics believe, and that charitable giving will expand more rapidly than is generally expected.

The size and nature of the impending "gap," and the ability of the voluntary sector to fill it, is a critical issue in the Administration's policy of encouraging voluntarism. The Urban Institute study is the only comprehensive examination to date of this issue, and it has widely been used as the definitive analysis of the impact of the Economic Recovery Act. It is necessary, therefore, to scrutinize the study carefully.

Yet there is another important element in the debate on voluntarism -- an element that is as much philosophical as practical in nature. Increasingly, the argument is raised that foundations and corporations should expand considerably their charitable activities to alleviate the burden on other segments of philan-

<sup>1</sup> See Stuart Butler, Philanthropy in America (Washington, D.C.: The Heritage Foundation, 1980); Bruce Hopkins, Charity Under Siege: Government Regulations of Fundraising (New York: John Wiley and Sons, 1980).

<sup>2</sup> Lester Salamon and Alan Abramson, The Federal Government and the Nonprofit Sector: Implications of the Reagan Budget Proposals (Washington, D.C.: The Urban Institute, May 1981); Charles Clotfelter and Lester Salamon, The Federal Government and the Nonprofit Sector: The Implications of the 1981 Tax on Individual Charitable Giving (Washington, D.C.: The Urban Institute, August 1981).

thropy. Not only is there doubt that foundations and corporations will increase their contributions significantly, given the existing regulations and tax law, but it is by no means obvious that corporations should be major sponsors of charity. A discussion of the appropriate role of corporations and foundations in philanthropy must therefore accompany an assessment of the outlook for voluntarism.

## PART I: CAN THE GAP BE FILLED?

### The Budget Cuts

Although the Urban Institute analysis of the budget changes was completed before the budget bill passed Congress, the difference between the Administration's proposals and the final outcome are not large enough to materially affect the study's claim that charitable non-profit organizations will lose approximately \$27 billion in government funding during 1981-1984. This would constitute almost one-third of their direct government support. In addition, the study claims, reductions in federal outlays in areas of interest to non-profit groups will result in pressure on such groups to increase their public services. For the non-profit organizations to finance existing services previously funded by government -- without regard to new demands -- private giving allegedly would have to increase at three times the rate of previous years.

The Independent Sector and others who cite these conclusions as proof that an impossible task faces the voluntary sector seem to ignore an important caveat in the study:

This report makes no effort to assess the merits of the budget proposals advanced by the current Administration, either with respect to particular proposals or with respect to the package as a whole. The focus of attention is on what the proposals are and what they will mean for non-profit organizations, not on whether they are desirable or undesirable.<sup>3</sup>

In other words, the study includes no assessment of the worth of programs cut in the budget. In calculating the gap, the assumption is that for every dollar reduction in government support to a non-profit organization, a private dollar must be found to replace it. This may be a necessary assumption to make in order to arrive at a "neutral" conclusion, but it weakens the study as a guide to future needs. Although the budget cuts were generally intended to reduce the level of federal spending, the Administration did not cut at random, but sought to concentrate the reductions in areas where government funding was of questionable efficiency, such as:

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<sup>3</sup> Salamon, Budget Proposals, p. 4.

a) Reductions in waste, fraud, and ineffective programs

Several of the programs cut or eliminated were wasteful and unnecessarily bureaucratic. As Senator Proxmire often has pointed out, many research awards and other expenditures finance activities of highly questionable value. And many "service" organizations seem to be more interested in obtaining and consuming government grants than in providing tangible assistance to anyone. Must waste of this kind now be financed by the private sector?

Many government-supported programs have been of marginal use, while others arguably have been counterproductive. Certain community development programs, for example, seem to have done little to develop communities, and some may even have exacerbated the problems of depressed neighborhoods. The public-sector CETA program, for instance, has often been accused of providing little real training and of inculcating negative attitudes about private sector employment. In addition, many welfare programs have trapped their recipients in a state of dependency, rather than providing a ladder out of poverty.

Although there would be considerable debate over the value of the particular programs cut, it is clearly not valid to view all the cuts as necessarily requiring some alternative sources of support. In some cases, programs cut should be reduced and even allowed to die; in many other cases, enormous waste can be reduced without impairing the quality of services provided.

b) Activities to be financed directly by recipients

Part of the budget cutbacks for the arts and education, such as the new needs test for student loans, rests on the contention that users of some service should pay directly for the cost. While this involves trimming federal support of certain non-profit organizations, it does not mean that there is a gap to be filled by private donations. The gap, such as it is, is to be covered by the beneficiaries.

In addition to an analysis of the degree to which non-profit organizations would lose federal funding, the Urban Institute study also examined the effect of the 1981 Tax Act on the incentives for charitable donations.

The Tax Act -- Individual Income Tax Rates

Spokesmen for the voluntary sector have expressed considerable concern over the effect that the reduction in individual income tax rates will have on charitable giving. Stated simply, the argument is that the higher a taxpayer's marginal tax rate, the more a charitable deduction is worth and thus the lower is the "price" of a gift. A taxpayer in the top 70 percent bracket (prior to the new law), for instance, would pay only \$30 "out-of-pocket" for a \$100 donation. The new law raises this net cost of giving. Because the top rate in 1982 will be 50 percent, the

after-tax cost of the \$100 gift will be \$50. The 25 percent cut in rates for the other brackets will have a similar effect. In every case, the new law will make charitable contributions more expensive compared with other ways of spending one's income.

There is strong evidence for the contention that the "price effect" tends to reduce charitable giving -- but only if all other things are equal.<sup>4</sup> The evidence further suggests that price sensitivity is more pronounced at higher income levels than at lower. High income donors tend to give more heavily to educational and health organizations than to welfare or religious groups, and so the across-the-board tax cut can be expected to affect health and educational bodies to a greater degree than other non-profit organizations.

Complicating the calculation of the aggregate effects of the tax cut, however, are a number of factors:

a) Deductions for non-itemizers

Only taxpayers who itemize deductions are influenced by the price effect under normal circumstances. For the more than 60 percent of taxpayers (concentrated in the lower and middle income ranges) who take the standard deduction, the price of giving has been the full amount contributed. The 1981 Tax Act, however, contains a provision allowing non-itemizers a special deduction on the short tax form. This effectively reduces the price of donations by the amount of the taxpayer's marginal rate. If a taxpayer is in the 30 percent bracket and does not itemize his deductions, a \$100 gift to charity has meant an out-of-pocket cost of \$100. But under the new law, the donor will be able to deduct charitable gifts from his taxable income, and then take the standard deduction. So a future \$100 donation by a non-itemizing taxpayer in the 30 percent bracket will cost him only \$70. Until 1985, a ceiling will restrict this special deduction; after that, there will be no limit.

Although contributions by lower income donors tend to be less price sensitive than those by high income taxpayers, the special deduction should stimulate gifts to organizations supported by non-itemizers, in particular churches and social welfare organizations. Martin Feldstein and Lawrence Lindsey, of the National Bureau of Economic Research, estimate that the special

<sup>4</sup> See, for example, Martin Feldstein, "Tax Incentives and Charitable Contributions," National Tax Journal, 1975; Martin Feldstein and Amy Taylor, "The Income Tax and Charitable Contributions," Econometrica, 1976; Feldstein, Testimony before the Subcommittee on Taxation, Senate Finance Committee, January 31, 1980; Charles Clotfelter and Eugene Steuerle, "Charitable Contributions," in Henry Aaron and Joseph Pechman (eds.), How Taxes Affect Economic Behavior (Washington, D.C.: The Brookings Institution, 1981).

deduction will increase total philanthropy by 12 percent.<sup>5</sup> This will offset at least part of the price effect stemming from the tax cut.

b) Income Effects

The negative effect of a reduction in marginal tax rates will also be offset by changes in the income of donors, both as a direct result of the tax cut, and because of future growth in the economy. The more money people earn, the more generous their giving. Central to any projection of giving in the future must be a set of assumptions regarding the growth of the economy, but there is no consensus on what that level of growth will be.

c) Switching

A third, albeit minor, complication involves the manner in which gifts are made. The Tax Act is so sweeping in its scope that it is likely to prompt changes in the pattern of giving. The reduction in estate taxes, for example, may reduce the level of bequests to charity, but donors could simply switch all or part of their intended contributions to gifts during their lifetime, thus swelling the aggregate of gifts by living individuals. This would depend on whether a donor wished to defer a contribution until his death, or simply wanted to give under the most favorable tax treatment. There are several other similar tax changes which will be summarized later. The interaction of these changes makes the net effect of the Tax Act very difficult to project accurately if the analysis is confined to only one form of giving, even if that method is the most common.

The Urban Institute Study<sup>6</sup>

The recent Urban Institute study on the implications of the Tax Act for philanthropy has been widely quoted as concluding that individual contributions to churches, colleges, hospitals, and other non-profit organizations will fall by a total of over \$18 billion during the next four years. If this is added to their earlier estimates of the losses to be suffered from the budget cuts, the combined shortfall could be \$45 billion between 1981-1984. The study concluded that three-quarters of this "loss" would be from reduced giving by individuals in the top seven tax brackets, and so the greatest impact would be felt by organizations supported by higher income donors.

Like the earlier assessment of the budget cuts, the tax study rests on certain assumptions critical to its conclusions.

<sup>5</sup> Martin Feldstein and Lawrence Lindsey, Stimulating Nonlinear Tax Rules and and Nonstandard Behavior: An Application to the Tax Treatment of Charitable Contributions (Cambridge, Massachusetts: National Bureau of Economic Research, 1981).

<sup>6</sup> See note 2.

Once again, these caveats were largely ignored in the media interpretations of the study. The principal assumptions and limitations of the study are:

- a) The exclusive focus on charitable donations by living individuals. Foundations, corporations, and bequests are not included. The authors defend these omissions on the grounds that reliable analyses of the giving behavior of these other donors are not available, and that contributions by living individuals account for well over 80 percent of total charitable giving.
- b) Basing projections on the relationships between tax, income, and donations that have been observed in the past. The study simply assumes that there will be no change in the basic pattern of philanthropy.
- c) Using the Carter Administration's economic forecast to estimate the level of giving that would have occurred in 1981-1984, had the pre-1981 tax law remained in force. For their projection of giving under the Reagan program, the authors used the present Administration's forecast for 1981-1984.

Limiting the analysis to living individuals may appear to be a valid approach. While the tax law does change the treatment of contributions by corporations and foundations, these probably will result in only a modest change in donations. In any case, individual support dominates total giving. On the other hand, 60 percent of gifts by living individuals are donated to religious organizations. Such gifts are a negligible proportion of donations by other segments of philanthropy. Of the non-religious element of giving, corporations and foundations account for over one-fifth. Thus, confining the study to living individuals greatly skews the outcome.

The second and third assumptions are even more problematical. The study concludes that under the Reagan Tax Act and economic scenario, charitable giving in real terms will increase faster during the next four years than during the last four years (a 14 percent total increase compared with 13.3 percent). If the study's projections of giving under the new Tax Act suggest a rate of increase that is greater than the trend in recent years, how can the study conclude that there will be an \$18 billion loss during 1981-1984? The answer: using the Carter economic forecast and tax law, the study projected a quite remarkable upturn in individual giving compared with 1976-1980. Over the next four years, said the study, giving would have increased by 25 percent -- double the rate of increase during the last four years. As Table I illustrates, it would also have meant a complete reversal of the present downward trend of individual giving as a percentage of personal income. The Reagan figures require no such dramatic turnaround.

TABLE I

Individual Giving as a Percentage of Personal Income,  
1976-1980, and Projections for 1981-1984, 1981 Tax  
Act vs. pre-1981 Law

<u>Year</u>	<u>1981 Tax Act</u>	<u>Pre-1981 Law</u>
1976	n/a	1.92
1977	"	1.91
1978	"	1.91
1979	"	1.89
1980	"	1.84
1981E	1.85	1.86
1982E	1.84	1.94
1983E	1.83	1.99
1984E	1.88	2.10

Source: Clotfelter and Salamon, The Federal Government  
and the Nonprofit Sector, p. 19.

E: Estimated by the authors.

The "decline" of \$18 billion (\$9.9 billion in constant 1980 dollars) in individual giving "below what it would have been under prior law, as a result of the recently enacted Economic Recovery Act of 1981" (as the authors put it) is therefore not a loss in any meaningful sense. It is only a comparative decline, based on a projection of giving which would have required a complete reversal of the trend of giving as a percentage of personal income and a doubling of the real rate of increase of contributions.

While the authors estimate that the rate of giving under Reagan will increase, they also claim that contributions to health and education will fall by 3 percent, in real terms, between 1981 and 1984. Religious and social welfare organizations will enjoy most of the increase. But this must be seen in context. Gifts to health and educational organizations showed virtually no increase, in real terms, during the 1970s.<sup>7</sup> So a decline of 3 percent would not be a major departure from the present trend, if one were to accept all the assumptions and reasoning of the study. Moreover, corporations and foundations are heavy supporters of health and education. Roughly two-thirds of all corporate contributions are split between these areas, and about 20 percent of all support to higher education comes from foundations.<sup>8</sup> Consequently, the future pattern of contributions to these two areas is likely to be influenced very strongly by factors that were not examined by the study.

<sup>7</sup> See Butler, Philanthropy in America, p. 3.

<sup>8</sup> Ibid., p. 31.



Not only is the study's benchmark projection of giving under the pre-1981 law very suspect, but the assumption that the basic pattern of giving will remain unchanged over the next four years is also contentious. Patterns do change over time. In constant dollars, giving to religious organizations has risen steadily during the last twenty years. Gifts to education, on the other hand, doubled between 1960 and 1970 and then grew very little over the next ten years. Donations to welfare organizations, measured in constant dollars, actually fell between 1960 and 1970, while support to health more than doubled. Philanthropy patterns are complex, and can change greatly in a relatively short period.

### Voodoo Voluntarism?

The Urban Institute study assumes that the supply and demand for charitable dollars are completely unrelated. In assessing trends for the next four years, the authors assume that a person's desire to give is simply a function of the price of giving (which depends on the tax rate) and the level of his income. The principal reason why giving was projected to rise so rapidly under the pre-1981 law was because "bracket-creep" would have lowered the marginal cost of donations. The decision to give, in other words, is considered in the study to be exclusively a "supply-side" phenomenon (to borrow a phrase), bearing no relation to any change in demand for charitable dollars. The assumption that supply and demand are unconnected is a serious and very fundamental flaw which could discredit the study and leave it as merely an interesting example of voodoo voluntarism.

There are very strong reasons to suppose that donors take into account perceived needs when they contribute funds. People do respond to appeals. And as a direct result of federal budget cuts, there will be strong appeals for donations. If the flexible patterns of the past are a guide, the structure of giving will shift in favor of those organizations hurt by the cuts and seen by the public as socially valuable.

Another reason why we can expect charitable giving to increase to meet new needs is what may be called a "crowding-out" theory of philanthropy. According to this hypothesis, people within a society have a view of what they feel to be an appropriate level of public services in each field. This level will change over time, depending on attitudes and the wealth of the society, and the range of services thought necessary.

These services can be financed either through the private sector, in the form of fees or donations, or by government. If government funding of a particular service increases, private support will tend to fall. This is due, in part, to the popular feeling that private money is needed less. And it is due in part to the disinclination of people to contribute twice to the same organization -- first in the form of a tax and then as a charitable donation. Government support of charities, according to the theory, has the effect of "crowding-out" private funding.

There is historical evidence to support the theory. The increase in government expenditures on public services has been accompanied by an erosion of private funding in many countries. The great charities of Victorian England have declined in importance in the wake of the British welfare state. In America, the same trend is noticeable. Private donations to health, education, and welfare organizations have stagnated, in real terms, in the years since the Great Society programs were enacted.

If the "crowding-out" theory is correct, it should also operate in reverse. As government aid is cut to organizations which the public deems worthy of support, private giving will increase. The depth of the budget cuts, and the publicity given to them, will assist popular charities in their requests for private help, and provide a stimulus to giving, thus altering the pattern of support. And the tax cuts, rather than reducing the desire to give, as supposed by the Urban Institute researchers, may on balance tend to increase giving, because donors will see fewer dollars pre-empted by government. The future pattern of giving, therefore, probably will have very little to do with the state of the economy, previous patterns of giving, or even the price of gifts. It is more likely to be the product of a desire by the public to fund services that are considered of value to society. In other words, a simple case of philanthropy.

#### The Tax Act -- Estate and Gift Taxes

In addition to changes in taxes on income, the 1981 Act contained certain other provisions that will affect gifts made by individuals. The most important of these is probably the modification of the tax on estates and gifts.

Under the pre-1981 law, estates and accumulated gifts greater than \$175,625 were liable to a tax ranging from 18 percent to 70 percent. A spouse, however, could inherit half of an estate free of this tax. The new law raises the tax-free gift and estate threshold, in increments, to \$600,000 in 1987, and reduces the maximum rate on taxable gifts and estates to 50 percent by 1986. The exclusion from tax of transfers to a spouse is raised to 100 percent, and a lower valuation for farm and other real business property will be used for tax purposes. Furthermore, the annual level of gifts allowed as an exclusion from the tax is to climb from \$3,000 per donee to \$10,000.

The effect of these changes will be to increase the price (i.e., after-tax cost) of bequests and lifetime gifts to charity, relative to disposals for other purposes. The degree to which this will affect total giving, however, is difficult to determine. It may cause a significant fall in the level of contributions to colleges and other organizations traditionally funded through bequests. On the other hand, it may cause an alteration in the form of gift, rather than in the amount. Some donors, for instance, may create a foundation rather than provide for a bequest.

There is understandable concern among college administrators about the net effect of these new provisions. But several fund-raisers point out that the increase in the tax-free allowances will not substantially change the tax liability of the multi-million dollar estates that are the source of so many bequests. Richard Winter, director of deferred giving at Rice University, noted recently that large contributors tend to have estates much greater than \$600,000. "The major donors are still going to have tax problems," he said.<sup>9</sup>

A provision in the Tax Act may encourage certain kinds of support to education and health organizations. The new law excludes tuition payments, training fees, and medical payments from the \$10,000 annual tax-free gift allowance. There is no ceiling on this exclusion nor restriction on the relationship between the donor and the donee. So there will be a tax incentive for donors who take the full annual gift tax exclusion to consider providing scholarships (and hence funds for education).

## PART II: FOUNDATIONS, CORPORATIONS AND VOLUNTARISM

While individuals provide over 80 percent of private support to non-profit organizations, increasing attention is being given to the role of foundations and corporations. Pressure is mounting for them to expand their charitable activities. This raises two questions: To what extent can foundations and corporations provide more support to charity, given the present tax law and regulations? And what should their role be?

### The Tax Act and Foundations

Under the pre-1981 law, private grant-making foundations were required to distribute annually either 5 percent of their net investment assets or their realized new income, whichever was the greater. In the new law, this minimum payout requirement is limited to 5 percent of assets.

This change should help to reverse a trend that seemed destined to lead to the extinction of the private foundation as an important source of charitable funds. The payout requirement was instituted in 1969 to ensure that foundations distributed a reasonable share of their income each year. The 1970s, however, were a period in which the real value of equity investments fell, while the income yields of most assets rose. Tax-exempt bodies other than private foundations could defend their assets by holding high-yield instruments and reinvesting the proceeds. But the payout requirement prevented foundations from using this strategy to build up their financial base. The base eroded and the ability to give consequently declined. As a result, gifts by

<sup>9</sup> The Wall Street Journal, July 28, 1981.

foundations, measured in constant dollars, have fallen by almost half since 1969, and, according to the Council of Foundations, the total real value of foundation assets has been reduced by about 40 percent.

The new flat 5 percent minimum, instead of the requirement that all net income must be disbursed, will enable surviving foundations to repair the damage of the last twelve years and stimulate the formation of new foundations, since the rigidity of the old payout requirement discouraged donors from establishing foundations.

### The Tax Act and Corporations

Pre-1981 law allowed a corporation to deduct no more than 5 percent of its taxable income as charitable contributions. This was raised to 10 percent by the new law. For tax-exempt corporations, created by non-profit organizations, the ceiling on tax-free unrelated business income remains at 5 percent.

Some spokesmen for non-profit groups seem to assume that raising the limit on deductible corporate contributions will unleash a torrent of donations. Yet, the 5 percent rule has hardly been a severe obstacle. While some corporations may have felt restricted by the ceiling, the average level of corporate donations in recent years has been closer to 1 percent than 5 percent. The increased limit thus is not going to facilitate any constrained desire to give. Moreover, the new depreciation schedules and other business tax relief will reduce the taxable income of most companies, especially in the short term. This can only reduce the tax incentives for corporate philanthropy.

The corporate world does seem to be coming under strong pressure, however, to increase donations. There have always been those who see corporations as a convenient source of money to finance any number of causes, without regard to the function of corporations or the economic consequences of such a strategy. These people are now arguing that an increase in corporate philanthropy is the price that business is obligated to pay for its tax relief.

While this kind of sentiment is expected from the usual critics of American business, similar notions are now coming from officials in the White House. Thinly-veiled threats and arm-twisting seem to be a part of the Administration's approach to corporate "voluntarism." James Rosebush, the White House aide responsible for voluntary sector liaison, remarked in a National Journal interview, "I don't think that the Administration will hold the corporate sector accountable, I think the American people will.... We won't point out the good and bad [corporate] performances, but the American people will."<sup>10</sup> And if they

<sup>10</sup> The National Journal, September 19, 1981, pp. 1668-1669.

don't, Rosebush might have added, Ralph Nader and his associates will be delighted to do so.

Yet even if corporations responded to this kind of pressure and greatly expanded their giving, they could not cover the reduction in federal support without severe cuts in their investment programs. Corporations account for only 5 percent of charitable contributions. If the Administration continues to jawbone corporations, and to tell the public that business will come to the rescue, it will achieve little more than providing its own critics with a very effective stick.

But is it correct to suppose that corporations should try to fill the gap, even if they could? Individuals give money to charity for various personal reasons, and they allocate their funds accordingly. Corporations, on the other hand, can hardly be said to have charitable instincts, in any meaningful sense. They are operated by managers of other people's money, and the proper goal of the managers is to achieve the best return for the shareholders. In so doing, they also efficiently provide services and goods to the public. When corporations in a free society engage in charitable activities, the motivation is and should be a function of normal business goals.

Within this framework, charitable activities can have very tangible economic returns in certain circumstances, and donations should be seen strictly in that way. Support to colleges and training programs, or for research, can be a sensible way for a corporation to develop new techniques and a skilled workforce. Similarly, there are often good reasons of mutual self-interest behind corporate support for local community development groups. A stable, improving urban environment benefits the businesses as well as the residents of the city. But the argument that business should blindly support charity out of some notion of corporate "conscience" is irrational. At worse, an increase in contributions would be little more than a begrudged and wasteful payoff to avoid harassment, and at best it would be inefficient, since the allocation decisions would be devoid of any element of individual obligation or charitable instinct. Moreover, the corporations would be simply controlling charitable dollars that should be allocated by shareholders. Surely it is better to have a situation in which the distribution of funds to charity reflects the cumulative decisions of individuals rather than the boards of corporate America.

The best way that a corporation can "contribute" is through its owners, the shareholders who are the corporation. The duty of corporate managers is to provide revenue to the shareholders. It is the duty of shareholders to give to charity.

This is not to say that corporations cannot play an important role in providing services to the public, but rather that this should be done in the context of normal business activities. Many private firms deliver services under contract, and they are

often much more efficient than either government or non-profit organizations. The for-profit hospitals, for example, have an excellent record of providing value for money. Similarly, subsidized job-training programs in the private sector have a far better track record than the wasteful CETA public jobs program cut by the Administration. It would be more sensible to view corporations as a partner in the provision of necessary public services than to see them as a convenient source of "guilt" money.

### Mobilizing the Voluntary Sector

The President's Task Force on Private Sector Initiatives will explore methods of expanding voluntarism, and examine mechanisms to increase support for non-profit organizations. But while the "gap" is narrower than many suppose, and there is great potential in the sector, there are nevertheless laws and regulations that needlessly impede the voluntary sector in its efforts to respond to the challenge before it. The Task Force must address these. In addition, it should be recognized that money is not the only issue. There are some remarkable examples of innovative uses of voluntary sector resources. The Task Force should identify these and encourage other organizations to learn from them.

Some of these problems and possibilities are summarized below.

#### a) The Regulation of Fundraising

Fundraising activities will have to increase considerably if the voluntary sector is to obtain the finance necessary to expand its role in providing services. But the recent growth of government restrictions on fundraising poses a serious obstacle. In his book Charity Under Siege, Bruce Hopkins, a charity law expert, described the nature of this "onslaught" of regulation:

Fundraising regulation has not come upon the voluntary sector by means of a single law, but is, instead, an amalgam of slowly building and encompassing local, state and federal administrative regulation.

It is an unfortunate fact that the charitable world is now wholly exposed to creeping regulation by federal, state and local agencies. While this regulation intensifies, the charities seem immobilized.<sup>11</sup>

The greatest problem of all, according to Hopkins, confronts organizations which seek to raise money by direct mail in several states. These groups face:

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<sup>11</sup> Hopkins, Charity Under Siege, p. viii.

The tax on unrelated business income was instituted in 1950 to end unfair competition in the market place, by putting businesses operated by charities on the same tax footing as any other business. But the new law will result in a relatively greater tax burden for charity subsidiaries. Not only is this a breach of the principle of equal treatment, but it is particularly regrettable because many of the charitable organizations which once relied heavily on government support are now in the process of creating business ventures to supplement their funding. This process should have been helped, not hindered by the new tax law.

### Foundations

In addition to the regulations affecting fundraising, private foundations have been inundated in recent years with restrictions on almost every part of their activities. The extensive reports that must be filed with the federal government, and the close scrutiny that is required in the case of grants to individuals, have discouraged foundations from supporting new ideas. Government policy has forced foundations to become more bureaucratic and conservative. As Marian Edelman of the Children's Defense Fund remarked recently, to obtain foundation support for a thoughtful proposal these days, "the burden of proof is more substantial than it used to be."<sup>14</sup>

These restrictions grew largely out of a perception in the 1950s and 1960s that foundations were merely unaccountable tax havens. Some reforms were clearly necessary, but the pendulum has now swung too far in the other direction. The decline of the private foundation must be reversed, because these organizations play a key role in philanthropy -- a role which is now more important than ever in view of the new demands on the voluntary sector. Foundations are sources of finance, but they are much more than that. They are the entrepreneurs and catalysts of the voluntary sector. According to Ford Foundation president Franklin Thomas:

There is a growing need for foundations to play a connective role in society -- to link private-sector resources with the energies of people in the community who are trying to address problems, whether these people are in community groups or social agencies that work for the public's benefit.<sup>15</sup>

This entrepreneurial feature will be vital in the new era of voluntarism. The infusion of organizational skills, combined with modest amounts of seed money, is likely to induce far more activity than simply providing large amounts of cash. Voluntary organizations are seeking ways of delivering new services and

<sup>14</sup> U.S. News and World Report, March 23, 1981, p. 62.

<sup>15</sup> Ibid.

stabilizing their financial base. Foundations can aid that process and make it more efficient. But they must be allowed to do so.

### Privatization and Contracting

In his speech to the National Alliance of Business, President Reagan drew attention to the work of one Philadelphia organization, operated by a married couple. The House of Umoja, on a shoestring budget, has been responsible for turning 500 former gang members into responsible citizens, and has helped to achieve a remarkable reduction in gang warfare.

The House of Umoja is a highly successful example of something that has been happening all over America: small, self-help groups either supplementing public services or providing entirely new ones. Many of these unorthodox groups fail, or at least do not reach their full potential, because they find themselves frustrated by government, rather than being helped by it.

The Task Force should monitor and publicize the achievements of these organizations, and it should identify and press for the removal of barriers to them. Small, inner-city day care centers, for example, are often hampered by absurdly rigid licensing requirements which protect nobody. Self-help housing rehabilitation groups can find their costs soaring because of the Davis-Bacon Act. The list is endless.

Government can also help the finances of community-based and other organizations while alleviating some of its own budget worries. Cities should consider contracting with non-profit organizations to provide services which they can deliver more efficiently. Neighborhood groups, for instance, can often provide cheaper and more effective management services for public housing projects than can professionals. Government should experiment with contracts of this form. They are a source of valuable funding and experience for the non-profit groups, and they can result in considerable savings to the city. In addition, cities and states should encourage businesses to bid for contracts when appropriate, such as for job training and educational programs.

### CONCLUSION

The budget cuts and tax reductions set in motion by the Reagan Administration constitute a long-overdue attempt to shift both power and responsibility back to the people. The voluntary sector will play a central role in this process, and the Administration must enable and encourage the sector to meet the challenge. In view of the restrictions imposed on the voluntary sector during the last twenty years, it is perhaps not surprising that many of its representatives are pessimistic. But the evidence indicates that the task is much less daunting than is generally supposed, and that Americans will respond to the obligations placed on them.



But government must help the voluntary sector make the transition. Unnecessary obstacles to voluntarism must be identified and removed, and every individual should be given encouragement to increase their giving. Corporations should not be pressured into fulfilling a function which is inappropriate to their role in society. Foundations are in dire straits thanks to perverse tax incentives and regulations, and their revival should be a priority -- the entrepreneurial skills of foundations will be desperately needed as non-profit organizations adjust to the new era. Above all, the vast potential offered by the countless voluntary associations engaged in unorthodox solutions to the problems of providing public services must be given full rein.

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