

ESSAYS IN
ECONOMICS, FINANCE
AND **MANAGEMENT**



Essays on

**Nonprofitization,
the Welfare State, and the
Future of Social Entrepreneurship**

Edited and with an Introduction by
Murray Sabrin

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MURRAY SABRIN

INTRODUCTION

Murray Sabrin

On December 19, 1991, *The Wall Street Journal* published Peter F. Drucker's essay, "It Profits Us to Strengthen Nonprofits," where he made several critical statements about America's welfare state, including..."Government has proved incompetent at solving social problems. Virtually every success we have scored has been achieved by nonprofits." Mr. Drucker also praised the nonprofit sector in general (of course, not all charitable organizations meet the Drucker test for efficiency and effectiveness) for its ability to provide cost effective solutions to pressing social issues, and called for "nonprofitization" of social services as the best alternative to America's costly welfare state programs and entrenched bureaucracies.

On April 6, 2016, the Anisfield School of Business at Ramapo College of New Jersey hosted a symposium, "Social Entrepreneurship: Wave of the Future?" to discuss Mr. Drucker's insights, assertions and recommendations about the welfare state and the nonprofit sector. This collection contains essays by the participants and others who were invited to give their perspective about whether nonprofitization should — will — be the wave of the future.

"What is needed," Mr. Drucker wrote a quarter of a century ago, "is a public policy that establishes the nonprofits as the country's first line of attack on its social problems."

Today, America's federal, state and local bureaucracies spend trillions of dollars each year ostensibly to improve people's lives. With tens of millions of Americans receiving food stamps, disability benefits, medical coverage, rent assistance, retirement income and other social welfare benefits, a comprehensive review of the paradigm that has created these programs, which has caused more dependency upon federal, state and local governments, is in order.

The greatest challenge for the American people in the 21st century is how to demonstrate their humanitarian concerns for their fellow human beings in an effective, less costly manner. Thus, Peter Drucker's proposal needs to have an airing in these times of fiscal constraints.

To examine the impact of Drucker's work and the challenges ahead in light of the federal government's \$20 trillion debt and more than \$200 trillion of unfunded liabilities as well as the hundreds of billions of dollars in state unfunded liabilities, this collection of essays is presented for the American people, especially to policymakers, nonprofit administrators and donors so we can have a much needed conversation about the "road" the country has traveled on, and which "road" would provide the best outcomes for both individuals and families needing social services and donors/taxpayers.

Below is a summary of each essayist's contribution and their brief bios.

Dr. Alieta Eck's essay about her experience as co-founder with her husband Dr. John Eck of a faith-based nonprofit health center in Somerset, New Jersey, which is treating low-income families who have difficulty obtaining medical care even if they are eligible for Medicaid, reveals the Ecks have created a model of nonprofit efficiency and effectiveness. Without taxpayer funding, the Zarephath Health Center (zhcenter.org) is an organization that Peter F. Drucker would undoubtedly applaud. Can the Zarephath Health Center model be replicated throughout America, which would undoubtedly save taxpayers tens of billions of dollars per year? With Medicaid spending projected to be \$605 billion in 2017, federal and state policymakers should make a concerted effort to promote the low cost, high quality nonprofit health center that the Ecks have created.

Dr. Alieta Eck graduated from the Rutgers College of Pharmacy and the St. Louis University School of Medicine in St. Louis, Missouri, and she studied Internal Medicine at Robert Wood Johnson University Hospital in New Brunswick, N.J. She has been in private practice with her husband, Dr. John Eck, in Piscataway, N.J. since 1988.

Dr. Eck has been involved in health care reform since her residency and is convinced that the government is a poor provider of medical care. She testified before the Joint Economic Committee of the U.S. Congress in 2004 about better ways to deliver medical care in the United States. In 2011, she testified before a Senate Health Committee chaired by Senators Bernie Sanders and Rand Paul about ways to avoid non-urgent visits to the emergency rooms.

In 2003, Dr. Eck and her husband founded the Zarephath Health Center, a non-government free clinic for the poor and uninsured that currently cares for about 300 patients per month utilizing the donated services of volunteer physicians and nurses. It is only open 12 hours per week.

In 2012, Dr. Eck was the President of the Association of American Physicians and Surgeons and serves on the board of Christian Care Medi-Share, a faith-based medical cost-sharing ministry. In 2014 she was the Republican nominee for the 12th Congressional district in New Jersey.

In March, 2015, she chaired a meeting of the National Physicians Coalition for Freedom in Medicine, about 30 physicians, who gathered in Washington, D.C. to draft a "One-Page Plan" to restore affordability, promote patient choice and retain quality in medical care. <http://bit.ly/npcfm>. She spoke at the National Press Club in Washington, D.C., in June 2016 to help unveil the Wedge of Health Freedom, an initiative of the Citizens' Council for Health Freedom.

Constance Crawford argues from both an accounting perspective and social entrepreneurial view that tax deductions for charitable contributions serve a useful public purpose by helping to direct funds to 501(c)(3) organizations. Professor Crawford highlights the impact of the tax deductibility of charitable contributions, which Mr. Drucker asserted should be increased in order to increase the American peoples' support of successful nonprofits.

Constance Crawford is professor of accounting in the Anisfield School of Business at Ramapo College. She holds a B.S. from Fordham University and an MBA from Iona College. Professor Crawford has extensive public accounting experience and is a CPA. Her publications have appeared in the *Journal of Modern Accounting and Auditing*, *Public and Municipal Finance*, *The Global Journal of Business Research*, *Journal of Business and Accounting*, and the *International Journal of Green Economics*. Professor Crawford's research interests include the Ethical Implications of Taxation on Society and the Viability of Guest Worker Program on the U.S. Economy.

Howard Husock agrees with Peter F. Drucker's analysis that nonprofits are more effective than government social welfare programs and applauds his vision of 25 years ago that social entrepreneurs will address America's problems better than government bureaucracies in the future.

Throughout the country, nonprofits Drucker envisioned to tackle a multitude of needs – integrating immigrants into American society, expanding educational opportunities, teaching prisoners skills to become productive members of society and other worthwhile causes-- are cited by Mr. Husock as evidence that Mr. Drucker's vision is being realized in cities and rural areas. Despite the successes of nonprofits across the country, Mr. Husock cites how the Obama administration's initiative, the Social Innovation Fund, is promoting nonprofit startups which will primarily rely on government support rather than the voluntary contributions of the American people.

Howard Husock is vice president for research and publications at the Manhattan Institute, where he is also director of the Institute's social entrepreneurship initiative. A *City Journal* contributing editor, he is the author of *Philanthropy Under Fire* (2013) and a contributor to Forbes.com.

From 1987 through 2006, Husock was director of case studies in public policy and management at Harvard University's Kennedy School of Government, where he was also a fellow at the Hauser Center on Nonprofit Organizations.

His publications on the nonprofit sector have appeared in the *Wall Street Journal*, *National Affairs*, *New York Times*, *New York Times Magazine*, *Society*, *Chronicle of Philanthropy*, and *Public Interest*. Husock has written widely on U.S. housing and urban policy, including in his book *The Trillion-Dollar Housing Mistake: The Failure of American Housing Policy* (2003) and his monograph *Repairing the Ladder: Toward a New Housing Policy Paradigm* (1996). His work has appeared in the *Journal of Policy Analysis and Management*, *Philanthropy*, and *The Wilson Quarterly*.

A former broadcast journalist and documentary filmmaker whose work won three Emmy Awards, Husock serves on the board of directors of the Corporation for Public Broadcasting. He holds a B.A. from Boston University's School of Public Communication and was a 1981–82 mid-career fellow at Princeton University's Woodrow Wilson School of Public and International Affairs.

Mitch Kahn's essay is based on his extensive research and experience as board member of several nonprofits and as executive director of Bergen County, New Jersey nonprofit, takes issue with Peter Drucker's assertion that charities should be the primary method to deal with social services.

Professor Kahn acknowledges that the nonprofit sector has become more dependent on taxpayer funding, a legacy of the Great Depression, the Great Society and other initiatives of the past five decades. Nevertheless, he reveals the challenges nonprofits face: training volunteers and reducing turnover, meeting fundraising goals, achieving effective outcomes, etc. To some degree, nonprofits reflect the public's values/willingness to assist their fellow citizens who have needs that can be addressed so they can have healthy, productive lives.

Drucker's "call for action" in 1991, according to Kahn, is "somewhat outdated," but the reality of the welfare state—in the broad sense—is that the financial sustainability of such popular program as Social Security and Medicare is in jeopardy because of the massive unfunded liabilities of the federal government, which is now estimated to be more than \$200 trillion.

Mitch Kahn is Professor Emeritus of Social Work at Ramapo College where he was a founding faculty member in 1971 and long-time director of the school's social work program. He studied social work and social policy at the University of Chicago (AM-SSA) and his publications have appeared in the *Social Service Review*, the *Journal of Community Practice*, the *Journal of Progressive Human Services*, the *Journal of Baccalaureate Social Work*, and popular media such as *The Nation* magazine and *Policy Link*, among others.

Professor Kahn has played an instrumental role in the development of state housing policy, and was the founder, administrator, or board director of numerous non-profit social service organizations, and he has had a significant career as a community organizer in New Jersey. He is a founding board member of New Jersey Citizen Action, the Vice-President of Organizing of the New Jersey Tenants Organization, and the former director of the non-profit Bergen County Housing Coalition, which provided counseling services to more than 62,000 county households during his 34 years at its helm. He was appointed by Governors Tom Kean and Christie Todd Whitman to serve on two state housing commissions, which recommend changes in state housing policy. He currently serves on the boards

of several non-profits organizations including the Greater Bergen Community Action Program, the Bergen County Housing Coalition, and City Green, Inc. Professor Kahn has been the recipient of numerous awards, the most recent being the National Association of Social Workers Lifetime Achievement award in 2013.

Sandra's Miniutti's vantage point as CFO of Charity Navigator (www.charitynavigator.com) gives her a unique perspective of the nonprofit sector's successes and disappointments. Ms. Miniutti's experience as a self-described "insider" leads her to conclude that Drucker's plea that most nonprofits must improve their performance in order to fulfill their missions is spot on. By doing so they will reap enormous benefits for not only their clients but donors and volunteers as well.

As Drucker observed, nonprofits must use performance/outcomes based metrics in order to attract more support for their missions instead of appealing for funds based on donors' altruism. Thus, Ms. Miniutti concurs with Drucker—namely, nonprofits that are redundant inefficient, and ineffective should close their doors. Charity Navigator provides a vital service for both donors and nonprofit administrators and directors. Donors can learn about the most effective charities in their backyard, so to speak, and nonprofit boards can light the proverbial fire under directors to shape up, ship out or become more effective.

Sandra Miniutti has been with Charity Navigator since the summer of 2002. She is responsible for all aspects of Charity Navigator's brand, all partnerships, media relations, communications, and outreach. She often appears on television, radio, and in print, commenting on the nonprofit sector.

After acquiring her Bachelor's of Science degree in Marine Science and Biology from the University of Miami, Ms. Miniutti started her career in the for-profit sector with Colgate-Palmolive. While earning an MBA from Rutgers University, Sandra completed internships with the Jane Voorhees Zimmerli Art Museum and the Morris Museum and then worked with a Rutgers professor to develop a business plan for the creation of a new nonprofit called GlassRoots. Based in Newark, an economically depressed city in New Jersey, the mission of the charity is to provide area youth with opportunities to create glass art, and develop entrepreneurial and life skills.

She went on to serve as a member of the Board of Trustees for GlassRoots from 2007 - 2014. After completing her MBA in finance and marketing, Sandra entered the nonprofit sector as a member of the development staff of the Morris Museum. She then went on to work at Charity Navigator originally as a program analyst. In her years at Charity Navigator, she's worn many different hats including seven years as both VP Marketing and CFO.

Amanda Missey has more than 25 years of program development, fundraising and administrative experience in the not-for-profit sector. In May 2014, she became the Executive Director of the Bergen Volunteer Medical Initiative (www.bvmi.org), a nonprofit that utilizes volunteer healthcare professionals to provide free, primary care to low-income working adults in Bergen County, New Jersey. This follows an 18-year career at the Volunteer Center of Bergen County, most recently as Senior Director of Civic & Community Engagement and founder of Bergen LEADS, a civic leadership program for adults. Ms. Missey is an experienced speaker and trainer on a number of topics including fundraising, corporate volunteering, leadership and board service.

Ms. Missey sits on the Board of Advisors of the Meadowlands Regional Chamber of Commerce and on the Bergen County Workforce Development Board. She is a Leadership New Jersey 2006 Fellow, past-president of the YMCA of Greater Bergen County and past-president of the Hackensack Rotary Club.

Ms. Missey highlights the challenges of providing medical care to the working poor in one of America's affluent counties. Although the Affordable Care Act has reduced the number of uninsured in the country, recently announced premium hikes for 2017 and the departure of several insurance companies from the program will likely adversely affect the state goal of the ACA to insure more Americans who are ineligible for Medicaid and do not have other access to health coverage.

However, nonprofit health centers provide a vital need at the local level, many of which are funded only with private donations and have to rely on their "pitch" to donors. As such, they are fulfilling their missions in a challenging economic environment and with competition from taxpayer subsidized nonprofits.

Ms. Missey is concerned that president-elect Trump's tax policies may have a negative impact on charitable giving in 2017 and beyond. If the American people want a vibrant nonprofit sector that addresses many issues in their communities, then they will have to express their concerns to the incoming administration and their congressional representatives who will determine if tax policy changes will reduce incentives for charitable contributions.

Dr. Murray Sabrin is Professor of Finance in the Anisfield School of Business at Ramapo College. He has been a member of the faculty since 1985. He has a Ph.D. in economic geography from Rutgers University, an M.A. in social studies education from Lehman College and a B.A. in history, geography and social studies education from Hunter College. He has worked in commercial real estate sales and marketing, personal portfolio management, and economic research.

Dr. Sabrin's essays have appeared in *The Record* (Bergen County, N.J.), *The Star Ledger*, *Trenton Times*, *the Asbury Park Press*, and *NJBIZ*. His essays have also appeared in *Commerce Magazine*, *Mid-Atlantic Journal of Business*, *Nonprofit Management and Leadership*, *Nonprofit and Voluntary Sector Quarterly*, and *Privatization Review*. He is the author of *Tax Free 2000: The Rebirth of American Liberty*. He writes commentary about New Jersey and the national economy at www.MurraySabrin.com.

Dr. Sabrin has produced and written three documentaries since 2013: "The Federal Reserve: 100 Years of Boom and Bust"; "The Income Tax: Necessary Evil Or Root of All Evil?"; and "Medicare and Medicaid: A Fifty Year Retrospective." The documentaries were screened at Ramapo College and are available on YouTube at SabrinFilms. He has moderated several symposia at Ramapo College including the April 6, 2016 event, "Social Entrepreneurship: The Wave of the Future?" which focused on Peter F. Drucker's analysis of the welfare state and nonprofit organizations.

In 2007, Dr. Sabrin and his wife Florence made a \$250,000 gift to Ramapo College to establish the Sabrin Center for Free Enterprise in the Anisfield School of Business. He is a founding trustee of the Bergen Volunteer Medical Initiative, a nonprofit health center located in Hackensack, N.J.

Dr. Sabrin's essay traces the ideological underpinnings of the welfare state from the 19th century religious movements, and how the idea's underscoring developments in Bismarck's Prussia were imported into the United States by young intellectuals who were enamored by the statistism of a powerful central state. He points out that the embrace of statism by a growing number of intellectuals and public officials in 20th century America posed a challenge for charities, which had been viewed by the vast majority of the public as the quintessential American institution—locally focused and based on voluntarism. Charities had to compete with newly created welfare state programs especially after the onset of the Great Depression. The coopting of voluntary charities by the welfare state may be one of the most important social developments in the history of the United States.

Unleashing the Power of Nonprofits in Health Care

Alieta Eck, MD



Peter F. Drucker has stated that nonprofits succeed where governments fail. Where government increases in bureaucracy, regulation and cost, nonprofits prove that true charity can do a better job at a fraction of the cost. Bringing communities together to solve social problems empowers both the giver and receiver, and teaches kindness, compassion and community to the next generation. It is what our communities crave, and it is what enhances the human spirit.

The Zarephath Health Center (www.zhcenter.org) is a non-government free clinic in central New Jersey, opening in 2003 for the purpose of helping patients in our community who were falling through the cracks of our healthcare system. My husband, also a physician Dr. John Eck and I had learned from “The Tragedy of American Compassion” by Marvin Olasky, and

felt that having a non-government free clinic was a better way than the government system to care for those in need. Having a private practice 10 miles away might not be considered a wise business decision, but it has worked extremely well.

Volunteer physicians, nurses and support staff provide kind, innovative, compassionate care, treating each patient as a valuable human being who has fallen onto hard times. We realize that tough circumstances can happen to anyone. Loss of a job, an injury somewhere along the way, a failed marriage, psychological or emotional pain leading to substance abuse — all background issues that lead someone to seek free care. We see them, hear their stories, empathize and treat their illnesses. Many come just a few times and then are back on their feet, grateful for the brief encounter in our health center. Others look to us as a place they can regularly visit where everyone knows their name and they are treated with dignity.

The streamlining of care makes everything worthwhile for the clinician, and the care is very efficient. There are no forms to fill out, nor claims to submit, or electronic medical records to deal with. There are no CPT or ICD-10 codes to search for and apply-- for we do not seek payment from any insurance company or government agency. We just have a patient chart that serves to document the findings and thinking of the clinician for the purpose of coordinating care at the next visit.

The care at our non-government clinic is free to the patient, as we believe charity should be-- for government “charity” is a misnomer. True charity is a “transaction” between an individual in need and someone who is willing and able to meet that need. When the patient leaves the premises of the Zarephath Health Center, the transaction is complete. No government agency will get a bill and the taxpayers will not be asked to fund the care plus there is no need for a huge bureaucracy to administer it. Government “charity” on the other hand must necessarily entail administrative functions to determine the income and thus worthiness of the recipient to qualify for such care. “Providers” need to be enlisted to provide that care, and payment must be sufficient to retain them. The transaction is between the government and the physician, with the patient having little say as to where he goes and whom he sees. It is often impersonal and unsatisfactory, leaving the patient feeling frustrated and despondent.

None of us earn our living at the Zarephath Health Center. We are volunteer professionals who work elsewhere but come together to solve a problem of access to medical care for the poor, and to make a huge difference in the community. The rewards are not monetary, but they are priceless. Getting stopped along the street to be thanked by a patient or family member we barely remember is proof that we have touched them in a significant way.

Private donations fund what we do-- paying for the electricity, heat, medical and office supplies. The cost to provide care comes to \$13 per patient visit. Since we are completely transparent in our finances with a yearly Form 990, we can demonstrate the extremely low administrative and operational costs. We have thus become the favorite charity of many regular donors. One Christmas letter is all the fundraising we need to do. In addition, a box at the front desk, where patients can donate a few dollars, preserves their dignity and gives them a chance to give back. Many come back to volunteer when they get back to their feet, wanting to take part in a charity that works.

Pharmaceutical companies have been generous in donating free medicines. Through another nonprofit organization called Direct Relief, we can order the medicines we need and have them delivered to us free of charge. Manufacturers use Direct Relief as a distribution center and their website makes it very simple.

We have not asked for any government grants and would not accept taxpayer money. But we are grateful that the federal government gives us medical malpractice protection via the Federal Tort Claims Act for the work we do at the clinic. Patients are asked to sign a form that explains that any lawsuit they might contemplate against a Zarephath Health Center physician would be against the federal government. Protection, not payment, is all we ask from our government. We are well trained and want to provide the best care, but if we should err and the patient is harmed, the federal government will make him whole again.

The Affordable Care Act has proven that the federal government is a poor provider of medical care. The astonishing clumsiness of its rollout and the incredible cost overruns from the beginning should make it clear that a bureaucratic government system cannot work well. There is no way that government officials can determine the quality of a medical service nor avoid the tremendous fraud and abuse that ensues when a giant program is instituted.

The expansion of Medicaid, the combined federal-state funded program purported to care for the poor that has existed since 1965, is a pillar of Obama Care, explaining the greatest proportion of the newly insured. However, in many states, the payments to physicians are so low that most offices do not see new Medicaid patients. It has been demonstrated that Medicaid patients have been using the emergency rooms for primary care, coming with sore throats and earaches because of inability to make a timely appointment at a doctor's office. The fact that taxpayers pay \$1,000 for an ER visit instead of \$100 for an office visit (actually, Medicaid pays about \$23) just proves how Medicaid's cost ineffectiveness harms taxpayers and deprives poor individuals from quality care. Physicians are compassionate and generous, but many are not willing to jeopardize their livelihood by participating in government programs for the poor-- a sure way to have a practice become insolvent.

At the Zarephath Health Center, we have found that, patients enrolled in Medicaid have trouble accessing care in three areas-- pain control, elective surgery and psychiatric care. The low payments combined with unlimited liability make physicians in these specialties avoid the program completely. If a Medicaid patient goes to the ER with abdominal pain and an ultrasound demonstrates gallstones, she is sent away if she does not have a fever or elevated liver enzymes, as these would indicate urgency of treatment. She is discharged with a few days of pain medicines and told to find a surgeon who will operate. This becomes extremely difficult. We have made many phone calls to help, have offered to pay a reasonable fee to a surgeon who is willing to do the surgery. We have thus brought patient and surgeon together.

A few stories demonstrate this. One Medicaid patient came to us with scars from a burn on her face she had sustained six months earlier. She received excellent intensive care and initial skin grafts at a top-notch pain center, but then was told she must get outpatient care in her county. She went to the University hospital in her county and was told she had to go back to the burn center. It appears that no physician took Medicaid and the patient could not make it past the secretary of any office she called.

In despair, someone told her about the Zarephath Health Center. Her head was being drawn down toward her shoulder as the scars were contracting, and it was clear that she needed further plastic surgery. All we could do was relieve her pain and then we began to make phone calls. A plastic surgery colleague recommended a doctor at the University hospital, so we sent her along with her records and a cover letter offering to pay the surgeon. A gracious letter came back saying that the Chief of Plastic Surgery, head of the medical school program, would take her case. There were bureaucratic delays, but eventually the surgery was performed. Perhaps having accountability and knowing that a community physician was paying attention helped enormously to address this patient's pressing medical needs.

Another patient came with the story of sudden decrease in vision in one eye. The emergency room physician said he needed to see a retina specialist, but no one would honor his Medicaid card. An ophthalmologist had established another non-government free clinic and a quick phone call was made to arrange a visit. The patient needed a sub-specialist, but once an ophthalmologist was involved in the case, his connections with colleagues streamlined the process.

One striking case was a young woman on Medicaid who broke her femur, the large thighbone in her leg, and suffered in pain for three years before it was fixed. There were initial delays, but when she was cleared by Medicaid, the bureaucrats insisted that she be released from the hospital and be readmitted. By then the surgeon felt she was high risk and backed off the case. She was left in a wheelchair in a lot of pain when we met her at the Zarephath Health Center. We found a surgeon who was willing to operate, and agreed to pay him a fair fee. After three years of pain and unnecessary suffering, she underwent a hip replacement without a hitch.

These are just a few examples of how we can make a huge difference, one patient at a time. We treat diabetes, hypertension, anxiety, depression, upper respiratory infections, earaches and other conditions suitable for an outpatient clinic. Our challenge comes when we need specialty care, and we do our best.

The bottom line is that the government is a poor provider of medical care. It can only restrict, coerce, meddle and underpay for services it promises to provide. We need common sense solutions and are working on a plan to simply protect physicians who provide a significant amount of free care.

Instead of trying to pay physicians who care for those who cannot pay, why not just protect them, not just for work they do in the free clinic, but in their private practices as well? As I stated before, the Federal Tort Claims Act provides coverage for volunteer physicians in free clinics, but the state government is in an excellent position to do extend similar coverage to their private practices. The state already provides medical malpractice protection to attending physicians, residents and students in the state medical schools, so it is just a matter of extending that coverage.

We have drafted a bill that is waiting to be discussed in the NJ Senate Health Committee. The Volunteer Medical Professional Act would provide medical malpractice protection to any physician or other medical professional who donates four hours a week in or through a non-government free clinic.

The taxpayers cannot continue to fund the inadequate and inefficient Medicaid system, which currently consumes up to one-third of the average state budget. One cannot predict how much savings will ultimately be achieved, but it is important to take the first step. One sure result will be happier physicians and patients.

Let doctors be doctors and communities be communities. As Peter Drucker has stated, "What is needed, therefore, is a public policy that establishes the nonprofits as the country's first line of attack on its social problems."

The way we care for the poor and the undocumented visitors will determine the character of our nation. We need to repeal the Affordable Care Act and then block grant the Medicaid dollars back to the states. Allow each state to be a crucible of democracy and let them demonstrate to each other ideas that work. They will find that utilizing the power of the nonprofits will provide better care at a fraction of the cost and will empower the people to thrive in an economy that grows with the increased buying power self-sufficiency of its people.

The Importance of Tax Deductions in Charitable Contribution

Constance J. Crawford, CPA



Introduction:

In December 1991, the noted social scientist Peter F. Drucker authored an article titled “It Profits Us to Strengthen the Nonprofits” aimed at providing a primer on the value of private solutions for social problems. Drucker argued that federal and state governments fail to effectively solve the ills of society. He believed that nonprofits, like the American Heart Association and the Salvation Army, effectively provided the much-needed solution for society’s woes. In addition, Drucker highlighted the cost effectiveness of nonprofits compared to the wastefulness of the government-funded programs. In the past 25 years since Drucker opined on the importance of strengthening the nonprofit sector, have the American people embraced his plea?

The Role of Charitable Contributions:

Americans have historically been very generous both with time and money according to the Charities Aid Foundation reports (Blackman, 2015.) In 2014, the foundation reported that the U.S. held the top spot throughout the world in charitable contributions (Blackman, 2015.) Interestingly, in 2015 the results of a Philanthropy Roundtable determined that 47 percent of the 1,000 participants believed that philanthropy provided the best method for solving society’s problems compared to 32 percent that selected governmental programs (Blackman, 2015.) But many people believe that some problems are just “TOO BIG” for nonprofits to handle. They argue that only government can provide adequate assistance to the overall needs of people who are facing personal hardships. But is that sentiment true? Many supporters of religious education point to the cost effectiveness of educating a child in a private religious school compared to educating a child in a public school. Ironically, parents sending their children to the more cost efficient religious school do not receive a tax deduction for the tuition they pay. Clearly, the local school districts, which are funded with tax dollars, are saving money because they do not need to educate these children. Perhaps, the tax savings should be shared with the families of the privately educated children.

Tax Consequences:

The tax deduction for charitable contributions was enacted in 1917, a mere four years after the federal income tax concept was introduced (IRS.GOV.) Initially, only a small number of wealthy individuals participated in the tax deductible provisions on their tax returns. The deduction for charitable contributions was reported as part of the itemized deduction process reported on schedule A. But during World War II, the amount of taxpayers making charitable contributions increased to almost 75 percent of the tax filing population (Camwath, 2013). Interestingly, in 1944 the federal government introduced the standard deduction, eliminating the need for the majority of taxpayers to continue to itemize their deductions. As a result, the vast majority of taxpayers no longer delineated the amount of their charitable contributions on their tax returns. Therefore, they essentially lost the tax benefit if they filed their taxes using the standard deduction (Camwath, 2013.) Only wealthy taxpayers continued to benefit from the charitable contribution deduction, because they were the taxpayers who itemized their deductions.

The large looming question is whether providing tax incentives to individuals as an incentive to support nonprofits entities cause any harm to the welfare of society. Currently, the Internal Revenue allows a taxpayer to deduct a contribution made to a registered 501(c)(3) tax exempt entity, but only if the comply with the following rules (IRS.GOV):

- Taxpayer must file a 1040 tax form and complete an Itemized Schedule A
- Taxpayer MUST have written proof for any deduction made in excess of \$250
- Form 8283 must be completed if Non-Cash Contributions exceed \$500
- Taxpayers must deduct the fair market value of any benefit received in conjunction with the contribution
- Only the Fair Market Value of the non-cash property can be deducted

In 1986 the Tax Reform Act was signed into law by President Ronald Reagan and attempted to reduce the tax burden on the wealthiest Americans (Duquette, 2014.) Reagan believed that the purpose of reducing the tax rates would provide an additional incentive for the wealthy to make contributions to the nonprofit entities of their choice. In doing so, society would benefit from these self-directed contributions and perhaps reduce the burden of government in providing social programs. It is still subject to debate as to whether that goal was ever reached. The primary source of the nonprofits funds comes from fees charged by the entity and government grants (IRS.gov).

Motivation for Charitable Contributions:

In 1889, Andrew Carnegie established one of the first charitable foundations because he believed that the wealthy have a “moral obligation” to share their wealth with society (Camwath, 2013.) Unfortunately, not everyone views wealthy taxpayers, like Andrew Carnegie, as kindhearted contributors to society. Many people believe that wealthy taxpayers create charitable foundations as creative tools designed to enable the wealthy to evade paying their “fair share” of taxes. Another tax incentive is available to individuals who donate large sums of money to charities as part of their last will and testament bequests. This estate and gift tax incentive allows taxpayers to effectively reduce the egregious estate tax imposed on many of the wealthiest taxpayers. At the time of their death, wealthy taxpayers are provided a tax reduction if they contribute money from their estates to nonprofits. The estate tax rate for wealthy individuals is an astounding 40 percent on taxable estates in excess of \$5,450,000. A tax deduction or tax credit should be provided as an incentive by our government to promote desired outcomes. If nonprofits can provide valuable services to members of society then the government should provide tax incentives not as tax avoidance tools but as an incentive to benefit worthwhile charities.

A study conducted in 2009 determined that 67 percent of taxpayers making charitable contributions would reduce their contributions if the tax saving advantage was reduced or eliminated (Blackman, 2015.) Another interesting fact pertains to charitable contributions and tax rates. It seems the higher the tax rate the greater the amount of charitable contributions. So clearly, tax rates are a strong motivating factor for wealthy taxpayers. When the highest tax rate in the 1970s was 70 percent, many more taxpayers made charitable contributions then they do now when the tax rate is 39.6 percent. Also, the after tax consequence of making charitable contributions is greater as the tax rate declines as the tax benefit received is reduced.

Tax Cost of Charitable Contributions:

Many proponents of enhancing the tax deductibility of charitable giving point to the fact that the current tax system requires minimum tax payments without allowing the taxpayer any voice in how those monies are to be disbursed. In providing tax incentives to support increased charitable

donations, the taxpayer is provided both the incentive to donate along with the voice in how the money will be spent by selecting the charitable recipient. However, naysayers argue that the federal and state governments are essentially funding the charities themselves because of the lost tax revenue resulting from the tax deduction provided the donor. The amount of that tax shortfall is estimated to be extensive, but the approved charities receiving the contributions are providing society with services that the government no longer needs to supply. That issue should be the primary motivating factor in providing a tax deduction for charitable contributions...that the approved charity will provide much needed services in a more effective manner than the government. The purpose of the government should be to provide needed services that society is unable to provide. Clearly, the majority of approved 501(c)(3) charitable entities provides effective specialized services in a caring and skilled manner and, as such, eliminates the need for the government to provide those services. However, without contributions, the charities would cease to function. Without tax incentives, the ability for many taxpayers to make contributions would be diminished or even eliminated.

Conclusion:

Peter Drucker was right....it does benefit us as a society to strengthen the nonprofit sector. Individuals who contribute to organizations like the American Red Cross and the American Cancer Society, or one of tens of thousands of charities in their communities who are improving people's lives or helping people in need with compassion and dignity, are in Drucker's perspective getting a great bang for their "bucks." In addition, once an individual contributes funds to a cause or nonprofit they strongly believe in, the incentive to volunteer their time may also become an additional positive outcome.

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Drucker's Vision is Being Realized Across America

Howard Husock



The late Peter Drucker both celebrated America's independent non-profit sector and foresaw its capacity to adapt to and address emergent social problems. In the years since his death, he has, as in so many ways, proven to be prescient. It's a blossoming I've seen first-hand, in fact. Beginning in 2001, I've led an initiative at the Manhattan Institute to seek out such organizations, through an award program. The diversity of their causes and methods has been notable. They have arisen in implicit recognition that government is failing to address changing social needs—even in such areas as immigration, aging and education where government spends so much. In San Francisco, an organization called Upwardly Global helps immigrants with professional-level skills gain the credentials necessary to work in the U.S. In suburban Atlanta, Fugees Family, started by an immigrant Jordanian Muslim, operates a school solely for refugee children, who arrive years behind educationally.

In Boston, Beacon Hill Village developed the idea of helping older residents "age in place" by joining a "village" offering services ranging from transportation to book groups. Its model and its vocabulary have spread across the country. In New York, Civic Builders, started by an NYU business school graduate, arose to use philanthropic support to build facilities for charter schools, which would otherwise lack them.

Groups such as these are notable in several regards that Drucker anticipated.

First, they have responded to needs which government had not anticipated nor served. The inspiration to serve, on the part of founder-leaders, was civic-minded and personal; it did not arise in response to an agency's request for proposal. Second, in many cases, they provide services similar to those for which government provides support but at far lower cost. Consider, for instance, the Parker Family Health Center in Red Bank, New Jersey—part of a nationwide network of more than 100 volunteer-based emergency medical facilities called Volunteers in Medicine. The clinic, a freestanding state-of-the-art facility, relies on philanthropic support for its \$1 million budget—which allows it to serve 10,000 patients, many on an ongoing basis. Philanthropy and volunteerism allow it to charge \$80 for an emergency visit—compared to an estimated \$300 for a basic hospital emergency room visit. As a group, the 110 Volunteers in Medicine clinics raise some \$45 million in local operating funds annually and take no government funding.

What's more, as Drucker foresaw, specific measures of success, rather than good causes alone, have come to be the coin of the realm among those seeking support for such organizations. Those promising to reduce prison recidivism typically must track rates of recidivism, as well as avoided costs of reduced imprisonment. In New York's Harlem section, a group called Getting Out and Staying Out, which teaches classes inside New York's Riker's Island jail and continues its relationship with inmates once they're released, reports that fewer than 10 percent of those with whom it works wind up back behind bars—far less than 60-plus percent that's typical for those who go through the standard release and parole system. In Jersey City, N.J., Rising Tide Capital, led by two young Harvard graduates, provides classes in entrepreneurship for low-income residents--and tracks whether they

start and continue a business over a period of years. Nearly 300 of those graduates have, in fact, started new businesses, while some 460 have seen expansions in businesses they already operated when they enrolled with Rising Tide. On average, those with businesses who have completed the 12-week program have seen a 64 percent increase in sales and a 47 percent increase in income (from \$38,375 to \$56,412). They've started and expanded pre-schools, pest control, home repair, home cleaning and auto repair businesses.

Indeed, The Robin Hood Foundation, which emerged after Drucker wrote, began to direct hundreds of millions annually to social service organizations--on the proviso that they had the ways and means to report on their results. The term "social entrepreneur" was unknown at the time that Drucker wrote--but he outlined the profile of just the sort of person and enterprise Robin Hood supports--those with original ideas who often combine philanthropic support with other forms of income and can demonstrate success. I've visited and evaluated dozens of such organizations--and seldom left without being uplifted by their effectiveness and amazed at the extent to which smart and successful people are starting entirely new organizations to address social problems about which they care.

At the same time, some such new organizations—many of which are far larger than mere "points of light," it's important to note—are serving another role of a sort Drucker understood well: that of signaling what positive social norms should be.¹ Examples of philanthropy and nonprofits that "scale" by establishing new norms are not common, of course, but are memorable and well known. Historically, the settlement-house movement — which began bringing social services to new immigrants at the dawn of the 20th century — started with a single institution (Chicago's Hull House) and within two decades included more than 400 similar locally led and funded organizations across the country, offering English classes, music lessons, and fresh-air camps.² Like the Village movement dedicated to encouraging "aging in place," the settlement-house movement had a national trade organization. But its power, too, lay in its core idea: that new immigrants deserved help in their quest for upward mobility and, indeed, Americanization. It was an idea, in other words, that inspired support from local leaders across the country. Similarly, Mothers Against Drunk Driving, although it has gone on to become a national organization with policy objectives, arguably has had its greatest influence simply by establishing a new norm: the designated driver. Teach for America's going to scale was helped by federal funding that complemented philanthropic support, but it arguably had its greatest influence simply by promoting an idea: that our best and brightest should considering teaching and join the crusade for improving public education.

It's even possible that influencing a cultural norm may not require an extensive organization or widespread replication. Think of the venture capitalist and philanthropist Peter Thiel, whose 2010 announcement that he would offer \$100,000 fellowships to prospective for-profit and social entrepreneurs who would agree to drop out of college to pursue their ideas, has called into question the much larger idea of whether a college education is worth it — and, if so, for whom? Public acceptance of the idea that a college education may not be right for everyone has since emerged as a new cultural norm, helping to legitimize, for instance, not only high-end high-tech entrepreneurship but also a revival of vocational education, now rebranded as career and technical education. Yet at the same time that this flowering of social entrepreneurship has occurred, a bleak narrative has developed about many of our social problems--such as the prospects of the poor advance or the spread of drug abuse—has taken hold. Thus, a contemporary response to Drucker must engage the question of why, when so much of what he foresaw has come to pass, a key element has not. As Drucker wrote: "What is needed, therefore, is a public policy that establishes the nonprofits as the country's first line of attack on its social problems."

Drucker's key public policy proposals have not, in fact, advanced. The charitable tax deduction has not only not significantly been increased in value—rather, President Obama consistently proposed limiting its value. Not only has there not been a move toward vouchering social services--and thus empowering those in need to shop among organizations for help--but the Obama White House has moved to draw even start-up non-profits into direct financial reliance on government, through something called Social Innovation Fund (SIF). This fund is housed within the Corporation for National and Community Service, the agency that oversees the AmeriCorps program, which poses its own problems; it pays “volunteers” to serve in approved non-profit organizations. The Innovation Fund goes further and can be understood as an effort by government, in the name of helping good new ideas go to “scale,” as effectively a means for government to set charitable priorities. The SIF staff, without even specific Congressional direction (other than a lump sum budget), sets select priorities. Such goals as “preparing youth for success in school; increasing economic opportunities for economically disadvantaged individuals, and promoting healthy lifestyles” appear uncontroversial but, at the same time, can be seen as select philanthropic purposes that have received a government seal of approval. That prospect takes actual form because the Fund is premised on recruiting major foundations—designated as “intermediaries”-- as partners called upon to provide matching funds. One must keep in mind that as robust as American philanthropy is, it constitutes only two percent of gross domestic product. Designating certain causes as having official priority risks starving the types of unpredicted, idiosyncratic—but effective—organizations described above. One fears that it will be a short step from a “public-private partnership” to a tax code that favors some types of charitable giving over others.³

That such developments that inhibit the growth of the “independent sector” have occurred at the same time the social entrepreneurship movement has emerged reflects a key barrier to the realization of Drucker's vision. I refer here to another sort of norm, one which has taken a deep hold in American life since the New Deal. Americans have come to expect government, rather than a vastly decentralized independent sector, to retain responsibility for operating, or at least organizing and funding, a system to address social needs. In other words, the norm of expecting government responsibility is the default of the polity.

Changing this norm is as important as nurturing new organizations themselves. To do so, we must acknowledge the source of its power. That lies in the government promise of universal provision of services. In that formulation, there will be funds to support Head Start, or Meals on Wheels, programs in every community--not just those that happen to have motivated local leaders who established new non-profits. Mounting an argument against that sort of apparent reach requires leaders willing to argue that mediocrity in the service of universal provision is not acceptable--that we can do better by relying on social entrepreneurship, and support from tax-advantaged philanthropy and charity.

Drucker's idea of using voucher financing is attractive--but hard to envision in detail. Who would qualify and how? Does it propose a clear-headed consumer of social services making informed choices--when those in need may be far from such a state? It may well be more practical simply to return as much tax money as possible to individuals and foundations to direct to organizations they believe can be effective--and rely on those organizations to draw in those who need their services. There is, at the same time, a tempting alternative, which must be avoided: continuing or expanding government contracting for social services. It is clear that, rather than extending the effective reach of non-profits, such contracting extends the risk-averse and bureaucratic culture of government to the independent sector. One need look no further to know this true than the regular horrors stories of abused children whose welfare was supposed to be monitored by government-supported child welfare

agencies. Government contracting with non-profit organizations for social services is, indeed, reveals the flaw of expanding such services through public spending: the services become extensive but mediocre. As Steven Smith and Michael Lipsky trenchantly observed in their unappreciated classic, “Nonprofits for Hire”, government tends to judge the quality of the work for which it contracts “simply by recording the production of service units.”⁴

Nonetheless the power of the idea of universal provision—a Head Start center in every town—is difficult to dislodge. The precondition for change must be leadership that will seek to reassure Americans that a decentralized, non-governmental system can be both sufficient and effective. Telling the stories of those non-governmental organizations which succeed where government fails can be a start—because when the Drucker, non-governmental model is given a chance, it proves to be potent, even in the face of some of our most difficult social challenges, such as inner city crime. Consider the work of Advocates for Community Transformation in what has long been a high-crime district in West Dallas. Founded by a faith-inspired former commercial litigator, it has successfully used the threat of legal action against the owners of buildings used by drug dealers to clear neighborhoods of the drug trade and its high rates of related violence. It speaks the language of faith but brings to its work the sophistication of GIS mapping, innovative legal tactics, and an alliance with city government (but not government funding). The Dallas Police Department regularly provides ACT with up-to-date crime data for its targeted neighborhoods; the city’s own legal office refers cases to it because it lacks the capacity to take up the cases of dozens of individual homeowners—who ACT helps to come forward, courageously, to threaten drug-related landlords with the loss of their property, as public nuisances. ACT, in a way police often cannot, gains the cooperation of homeowners who have long lived in fear. The results have been closely tracked—and are impressive. In the four West Dallas neighborhoods where ACT has been active since 2008, crime, over that time has fallen by 52 percent. That’s a decline in major crimes—including murder, assault, burglary and rape, thanks, in part, it’s worth noting, to the efforts of white evangelicals working with black neighborhoods not far from the site of the tragic July police shootings in central Dallas.

This is not to say that there may not be ways in which government can be effective in providing for those in need. To the extent that Americans, as a polity, decide that our social safety net should include cash support, government can effectively cut the checks. One must not, however, confuse the skills associated with helping the addict or retraining the ex-offender, with simple, straightforward financial support. Identifying and addressing changing needs in a changing society, however, is not something government can do well at all. Convincing Americans that this is the case must precede the changes that Drucker, so wisely, proposed. Drucker, not surprisingly, remains ahead of his time.

(Endnotes)

1 See Howard Husock, “A Smart Way for Philanthropy Ideas to Spread Fast: Change Social Norms,” *Chronicle of Philanthropy*, July 13, 2015

2 See Howard Husock, “Bringing Back the Settlement House,” *The Public Interest*, Fall, 1992

3 See Howard Husock, “Nonprofits and the State,” *National Affairs*, Winter, 2011

4 ⁸ Steven Smith and Michael Lipsky, “Nonprofits for Hire: The Welfare State in the Age of Contracting.” Harvard University Press, Cambridge, 1995, p 199

What Peter Drucker Misses on Non-Profits

Mitch Kahn



In his notable essay, “It Profits Us to Strengthen Nonprofits,” (WSJ, 1991), Peter Drucker reflects the ideology of American private charities from the 19th to early 20th Century that charity, social work, and social services should function exclusively in the private sector. Public welfare programs were seen as inefficient, susceptible to political corruption, non-professional, and indiscriminant with a lack of emphasis on changing individual behavior, which would only perpetuate the problems meant to be solved. Private charities would, on the other hand, “teach the rich how to give, and the poor how to live.” Private charity should be a last resort to be used by the needy only when the family system and market economy failed to meet human needs. This was the dominant ideology governing social welfare provision in the United States until the mid-20th century. This “residual” approach was very compatible with

the Protestant Work Ethic with its emphasis on self-reliance, and the late 19th century pre-eminence of Social Darwinism which saw social welfare as an impediment to a necessary competitive struggle between human beings.

It was within this context that the professional foundation of social work practice was established by the private charities, particularly the numerous branches of the Charity Organization Society, the nation’s largest private charity in the 19th Century. But historical circumstances changed when industrialization, urbanization, and mass immigration yielded a new wave of problems that impacted millions of people, and social movements emerged demanding greater government involvement in addressing them. The Progressive Movement (1898-1920), about which my fellow panelist Mr. James Ostrowski has written extensively and critically, set in motion hundreds of regulatory initiatives dealing with everything from child labor to public sanitation to election reforms, and the implementation of scores of social welfare programs at the federal and state level. These reforms included workman’s compensation, hours and wages regulations, widow’s pensions, progressive taxation, and child welfare programs. They were the genesis of what many call “the welfare state” which came to fruition in the 1930s with the onset of the Great Depression and passage of the New Deal, and the debate over government involvement in social welfare continues to the present time.

Beginning in the mid-1970s the movement to curtail government involvement was driven by the agenda of the Business Roundtable, a policy organization made up of the CEO’s from the top 100 or so corporations in the United States. Today, we have business leaders, the Scaiff and Olin Foundations, and scores of think tanks such as Heritage, the Cato Institute, and the Manhattan Institute (represented here by Mr. Howard Husock) adding fuel to the fire. Their overall agenda has been to cut taxes on corporations and wealthy individuals, eliminate government regulations on business, promote policies that make it easier for American business to compete in a global environment, fight unionization, and specific to the concerns of this conference, reduce government spending on social services. While some initiatives, particularly in the area of deregulation, were begun during the Presidency of Jimmy Carter, the election of Ronald Reagan in 1980 gave greater impetus to this agenda. I would argue that every President since (including Democrats Clinton and Obama), has to some degree given strong support or at least deference to this agenda, and now we have a Congress largely in favor of it. Drucker’s position on nonprofits and his carte blanche attack on government social welfare programs is a logical extension of this ideology. But I would also argue, as Drucker noted at the time he wrote this article in 1991, nonprofits were already playing an effective role in the

delivery of social services in America. Drucker was correct in predicting that government spending on social services was going to become even more constricted in the future (the political winds had already been blowing in that direction for more than a decade), and that non-profits would have to play an even larger role. In 1991, there were 900,000 NP's. Today that number is 1.5 million, two-thirds of which provide some type of social service.

Drucker casts his argument that private non-profits should replace publicly run social services. Drucker sites what he claims are highly successful voluntary social services and makes a blanket indictment of public ones without providing much data to prove this. I would argue that while government still plays a large role in providing social services, many which are quite successful, it has long given up on attempting to address every social problem from centralized bureaucracies as Drucker implies. Even the number of the often castigated "welfare mothers" that Drucker sees in need of some form of "rehabilitation," has been reduced by more than 60 percent since the publication of his article. But this reduction (due to the President Bill Clinton supported 1996 "Personal Responsibility Act") in no way has reduced the incidence of poverty or its root causes.

Since the 1960s there has been a steady growth in government contracting out services to non-profits. In actuality, 65-70 percent of non-profits, which provide human services, have contracts with government to provide their services, including the Judson Center in Royal Oak, Michigan, one of Drucker's favorites, which he cites in the article. Even the old Charity Organization Society of New York, which today is the Community Service Society of New York, is largely dependent on government funding. The CSS which has net assets of \$180 million, making it the most well-endowed local private social welfare agency in the nation, receives 44 percent of its annual program funding from government sources. And more than 50 percent of federal dollars spent on social services filter down into contracts with non-profits. At the street level in major metropolitan areas (Chicago, LA, and DC) some 70 percent of services provided to the very poor come from the nonprofit sector (Allard, 2008). So, that by 1991, in attacking public welfare programs, Drucker was setting up a straw man who was already hemorrhaging his stuffing. The voluntary sector which one hundred years ago was firmly opposed to government involvement in social welfare, has in fact become dependent on the transfer of federal, state and county tax dollars, and in many cases its programs are outgrowths of government ones, particularly in the areas of child welfare, job training, legal services for the poor, housing, and mental health. The current reality is that public social welfare bureaucracies are now increasingly partnering with nonprofits or overseeing contract compliance.

Unfortunately, because of their dependence on public funds, the contraction of government discretionary social spending on many social programs during the last decade has impacted negatively on the very nonprofit sector Drucker so heartily supports. The very ideology that has driven privatization has undermined it when it comes to social services unless, as Drucker hoped for, sufficient funding would come voluntarily from private sources. The question is, has this happened? Drucker noted that private giving had gone up from 2.5 percent to 2.9 percent of personal income in the few years before the publication of his article. He called that a "sharp" increase and indeed, it was a 16 percent increase. But what has happened since? Average charitable contributions from individuals with itemized tax returns have dropped to 2.2 percent of gross income and that figure has been pretty steady over the past ten years, a 25 percent decline from the figure of 2.9 percent in 1991. This still amounts to almost \$195 billion in charitable contributions, and the actual amount is much higher since we have no data on the majority of taxpayers who just take the standardized deductions. It is estimated that in total some \$316 billion comes from all components of the private sector. How this all translates on the ground is variable and fluctuates from year to year. For example, in periods of serious economic recession when social needs increase, private donations by individuals

decrease. Among those taxpayers who earned more the \$200,000 a year, charitable contributions dropped by \$31B (4.6 percent) from 2007 to 2009 (*Chronicle of Philanthropy*, 2012). Adjusted for inflation, contributions from individuals have returned to pre-recession levels, but contributions from foundations and corporations have lagged behind (Reich and Wimer, 2012).

In its surveys of New Jersey nonprofits in the last two years, the New Jersey Center for Non-Profits found that in 2013 a greater percentage of nonprofits experienced a reduction in individual contributions than those which experienced an increase. The opposite was true in 2014. But in both years a sizable plurality of agencies faced declines. In 2013, 31 percent of New Jersey non-profits ran operational deficits, and in 2014, 26 percent did so. While all this data is not definitive, it runs contrary to the trend Drucker had predicted (NJCNP, 2014, 2015). Also, finding qualified, competent fundraisers is the most difficult task facing non-profits. It worth mentioning that even for those agencies that can afford to hire fundraisers, more than half of all nonprofit fundraisers last less than two years on the job. And 25 percent of non-profit executive directors report that they fired the last person who occupied that position. (Berkshire, 2013).

In terms of volunteerism, Drucker argued that 1 out of 2 adults (50 percent) in 1991 were working at least three hours a week (156 hours a year) for a nonprofit organization, and he cited sources that predicted this would increase significantly by 2001, but the opposite has occurred. Today, according to Bureau of Labor Statistics most recent *Current Population Survey*, 2013, 25.4 percent of the adult population volunteers on average, 56 hours a year (BLS, 2013), a sharp decline. The *Non-Profit Times* recently noted its concern over data that indicates a shrinking volunteer rate for the past three years. (NPT, 2015).

In any case, while these trends may be temporary, and may not be a canary in a coal mine that nonprofit managers fear, they hardly lend credence to Drucker's optimistic forecast that increasing private sector financial support and increasing citizen volunteerism is going to materialize sufficiently enough to drive his vision, let alone coming close to meeting the nation's social service needs.

Drucker does raise some important issues in the training of volunteers. He cites all the positive attributes of volunteering and assumes that quality training occurs if non-profits have effective management. But this is as much a resource question as a management issue. As anyone who has managed social services knows, the training of volunteers can be a very uneven process. I have worked with a number of organizations who have used volunteers extensively. Some manage them effectively and they make a critical contribution to the provision of services. However, there are those nonprofits that do not have the resources to do an effective job and merely log volunteer hours without much accountability. Some nonprofits see an economic incentive for using volunteers but do not realize the costs of quality training and supervision. Nationally, each hour of volunteers' labor saves a nonprofit \$24 an hour in labor costs and this figure is even higher in N.J. and N.Y. But recruitment, training, supervision, and retention of volunteers are time-consuming activities, particularly for agencies with limited staff resources. The skill level needed for specific services may require years, not weeks or months, of training. At times under-trained volunteers are used to replace the use of paid employees in order to save money, but certainly it is problematic to use volunteers where highly skilled and experienced social workers are needed. Very careful frameworks for training must be established and executed but the resources needed to make this happen are often problematic for the vast majority of smaller nonprofits.

Of course, Drucker gave himself a big out. Without providing much evidence, he claimed that people would hold back on their volunteer participation and financial support until there is greater accountability and a focus on results. He says that nonprofits should not hawk needs, but results. I agree as long as we know the extent of the needs and what it will take to meet them. Drucker is a little vague on the needs, which he defines inadequately in miniscule snapshots, and I think he is wrong on why volunteer participation and financial support might wane. And as anyone who has been involved in securing private or public funding for a nonprofit knows, there has been a growing emphasis on evidence-based practice and performance standards at the same time that voluntarism and financial support has been decreasing. In fact, many state governments have bought into this process under the impetus of the Pew-MacArthur Results First Initiative and other advocates for evidence-based practices. A recent MacArthur Foundation Report (2015) (*Legislating Evidence-Based Policymaking*, March 2015) reviewed over 100 state statutes enacted between 2004 and 2014, which were designed to promote greater accountability from government funded human service programs. It found that the following trends were becoming manifest in a large number of states:

- States requiring agencies to inventory and categorize funded programs by their evidence of effectiveness
- States providing incentives for the use of evidence- and research-based programs
- States restricting funding of programs shown to be ineffective
- States requiring the use of evidence- or research-based programs
- States dedicating funding to evidence- or research-based programs

A similar trend has occurred in the foundation world. Does this mean the nonprofits who can prove they are more cost-effective and successful in delivering social services will receive greater private and public support? Absolutely not! Funding decisions are often not an objective, value neutral process. In the real world, decisions may be based on political considerations cronyism, donor preferences, and other factors. More often than not, decisions are based on the funders' limited financial resources. I keep thinking of the 809 "deserving" agencies that Drucker's Foundation did not fund, and the scores of funding cuts many agencies receive even when receiving top evaluations from funders' reviewers. Decisions may also be based on cognitive dissonance. Donors may see what they want to see based on a particular prejudice or belief, and some of this is reflected in Drucker's thinking. Clearly, the Drucker Foundation saw the Judson Center through rose-colored glasses, and lavished praise on their methods of staffing and training. But just a year ago, a state monitored inspection of Judson's adoption, foster care, and independent living programs found violations of supervisor training requirements, insufficient caseworker contact with clients, insufficient mental health screenings of clients, and a score of procedural errors on the part of staff. (Michigan DHS, 2015). So, what one believes to be the best services, may in time mirror the same faults as what Drucker deems to be the worst in public agencies. Who could argue with Drucker that excellence should be a vital pre-requisite for funding, However, excellence is often not rewarded by public or private funders because of one or more of the previous mentioned reasons, but not as Drucker maintains, because of public bureaucracies' hostility to nonprofits. In fact, it has been public support that has kept most nonprofits afloat.

My personal experience has reinforced what is stated above. I have served on the Boards of Directors of a half dozen non-profits and also served as the Executive Director of the Bergen County Housing Coalition (BCHC) in Hackensack, NJ., which provided counseling services to more than 61,000 households over a 34-year period. My program met rigorous evaluative standards consistently and proved to be one of, if not the most, cost-effective social services in Bergen County. I worked with scores of other nonprofits in social service collaborations, and in my role as a social work educator,

monitored hundreds of students' fieldwork in both public and private nonprofit settings. I have also worked as a volunteer in a highly effective social service where volunteers made up 99 percent of the staffing.

There are a number of interesting and useful insights and kernels of truth in Peter Drucker's article, but his adoration of voluntary service, his indiscriminate attacks on public social services, public schools, and public colleges, and reliance on arguments that often suffer from errors of omission make "It Profits Us to Strengthen Nonprofits," a subjective and somewhat dated commentary on the relationship between nonprofit and government social services.

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Drucker's Vision Can be Realized Only When Donors and Nonprofits Focus on Results

Sandra Miniutti



In Peter F. Drucker's Wall Street Journal essay, "It Profits Us to Strengthen Nonprofits," he makes the claim that "a well-managed nonprofit gets at least twice the bang out of each buck that a government agency does." He proposed that we "grow our economy beyond the public and private sectors by adding the third, nonprofit sector that would succeed or fail based upon their own abilities to achieve their missions and deliver results."

Drucker even provides the recipe to make this happen. First, he says we need to "...triple the productivity of the nonprofits." Then, we need donors to double the amount they give. And he gets even more granular saying that nonprofits need to focus on their impact, appeal for support based on those results rather than based on their needs, and by aligning our government's tax policy so that we offer greater rewards to those who invest in the sector.

I believe Drucker is right. I also believe, based on my 20 years studying and working in the nonprofit sector, that significantly improving the performance of nonprofits and changing donor behavior is no small task. Clearly, it hasn't happened on a massive scale in the 25 years since Drucker's essay. In my essay, I'll discuss how I see the current state of the nonprofit sector and how that aligns with Drucker's forward thinking in 1991.

Today's nonprofit sector in America is the largest in the history of mankind. It is so bloated, in fact, that it consists of a staggering 1.4 million organizations. The IRS at the federal level and either the secretary of state or attorney general at the state level handles oversight of this vast number of nonprofits. But these agencies will be the first to tell you that they lack the necessary resources to provide thorough oversight. Even with the proper resources, these agencies would only be able to protect the public from the most fraudulent of charities. Their role is not to tell the public which charities are the most high-performing or the most efficient.

Why does that matter? Because, as Drucker makes very clear in his essay based on his own observations in the field, not all nonprofits are equal. While my own experience leads me to believe that the vast majority of charities strive to be efficient and effective, I also know that there are plenty that is not up to par. Think for a minute about the fact that there are more than 40,000 nonprofits serving military and veterans. There are several thousand just focused on breast cancer. Eliminating the bottom performers would free up more resources for the high-performing charities, make the sector less opaque and less confusing to donors.

But don't just believe Drucker and me on this point. Consider the report published in the Harvard Business Review, back in 2003, authored by former Senator Bill Bradley and McKinsey & Company. In this report, Bradley and McKinsey made the case that America's nonprofits could save \$100 billion just by improving the way they operate. Their report goes into a fair amount of detail into all the ways in which the savings can be realized. But essentially, the study says that we need the bottom half of charities to perform as efficiently as the top half. I'll take it a step further and say that if they can't or won't, then they need to close up shop.

When Drucker wrote his essay, there wasn't a surefire, easy way for social investors to know which nonprofits are the most effective. Despite that, Americans willingly fork over billions of dollars to nonprofits annually. That's right, billions of dollars with little to no assurances that their hard-earned money will accomplish anything.

While we pat ourselves on the back for our generosity, which exceeds giving in all other countries, we would be remiss not to put it in perspective. Giving in America has historically been relatively inelastic. While the charities on the receiving end change from year to year, the total amount donated varies very little. Drucker goes after this fact in his essay pointing out that the typical American only gives 3 percent of their gross income. He says that if we want to see the nonprofit sector reach its full potential, then we must double our annual giving.

But changing donor behavior isn't so easy. New research into this topic, published in a series of reports called Money for Good, hypothesizes that it is possible to increase giving by \$47 billion annually (which is a far cry from the \$300 billion that Drucker hopes to see injected into the sector, but a start). The study essentially recommends that charities do a better job asking for support from donors, by (1) making their appeals more joyful, (2) targeting each donor segment with unique messaging and (3) by showing the results of their work.

This is exactly what Drucker said in 1991. In his essay, he says that "nonprofits need to learn how to raise money..." and that "... a great many nonprofits still believe that the way to get money is to hawk needs." Instead, he said "...the American public gives for results. It no longer gives to 'charity;' it 'buys in.'"

Based on the 14 years I've spent at Charity Navigator talking to donors of all levels, I believe Drucker really was on to something in 1991. Over the years, I've seen that charities trotting out tragic photos and heartbreaking stories no longer resonate as an effective fundraising strategy. While such tactics can inspire donors to take an interest in a cause, they are less likely today to close the deal without data on the return on their social investment. Just imagine the transformation that could take place if philanthropists had objective data on the performance of all charities seeking their support! That inspiration - the idea that donors should be able to easily identify which charities are worthy of support - is the concept behind Charity Navigator.

In the absence of a uniform bottom line with which to assess the impact of charities, Charity Navigator was launched in 2001 with a methodology that solely evaluated the financial health of nonprofits. On the day that we launched, with free ratings for 1,100 of the best-known nonprofits in America, we instantly became the largest independent charity rating service in the world. Since then, we've grown our ratings to a total of 8,000 nonprofits (which accounts for half of all donations to non-houses of worship) and expanded our analysis to include metrics that examine the governance practices at each charity. Our site includes tools and tips that help not just donors but also nonprofits benchmark their performance.

We believe that the additional scrutiny and the analysis tools we provide to nonprofits will lead to innovation in all aspects of nonprofit management- which is something that Drucker called for in his essay, as did Bradley and McKinsey in their report. He rightly points out that it isn't just financial health and good governance that makes a charity great. During his many years focused on best practices in the management of for-profits, Drucker taught that successful organizations don't look internally, they are focused on the impact they have in the world. Specifically, Drucker states that effective organizations have the following qualities: clarity of mission, innovative ability, clear definition of results and willingness to measure results. And later in his career, he would become a proponent that these same standards apply to the best nonprofits.

In a world where nonprofits with the best-known brands and most aggressive marketing win, the idea that they should be measured based on their impact, can be scary for sure. But I believe the vast majority of nonprofits aren't resistant to the concept. I've found most people working in the sector to be devoted to their nonprofit's mission. Often they've given up larger salaries in the for-profit world for the chance to make a difference. So, it is hard to believe that they don't want to know if their nonprofit is on the right track. Rather, these leaders simply lack the time, resources and the know-how to be able to define, measure, and report on their desired impact. This is exactly what we found at Charity Navigator when we surveyed more than 3,000 of the largest charities in America to gauge their proficiency in measuring and reporting on their results. To be sure, there are some trailblazers, like the Rainforest Alliance, Harlem Children's Zone and Breast Cancer Research Foundation. These are just a few examples of nonprofits, who have published detailed information on their websites that clearly articulates their approach to solving the problem specified in their mission and are upfront about the progress they've made. But at Charity Navigator, we found that the charities without publically available results data far outnumber those charities with such data.

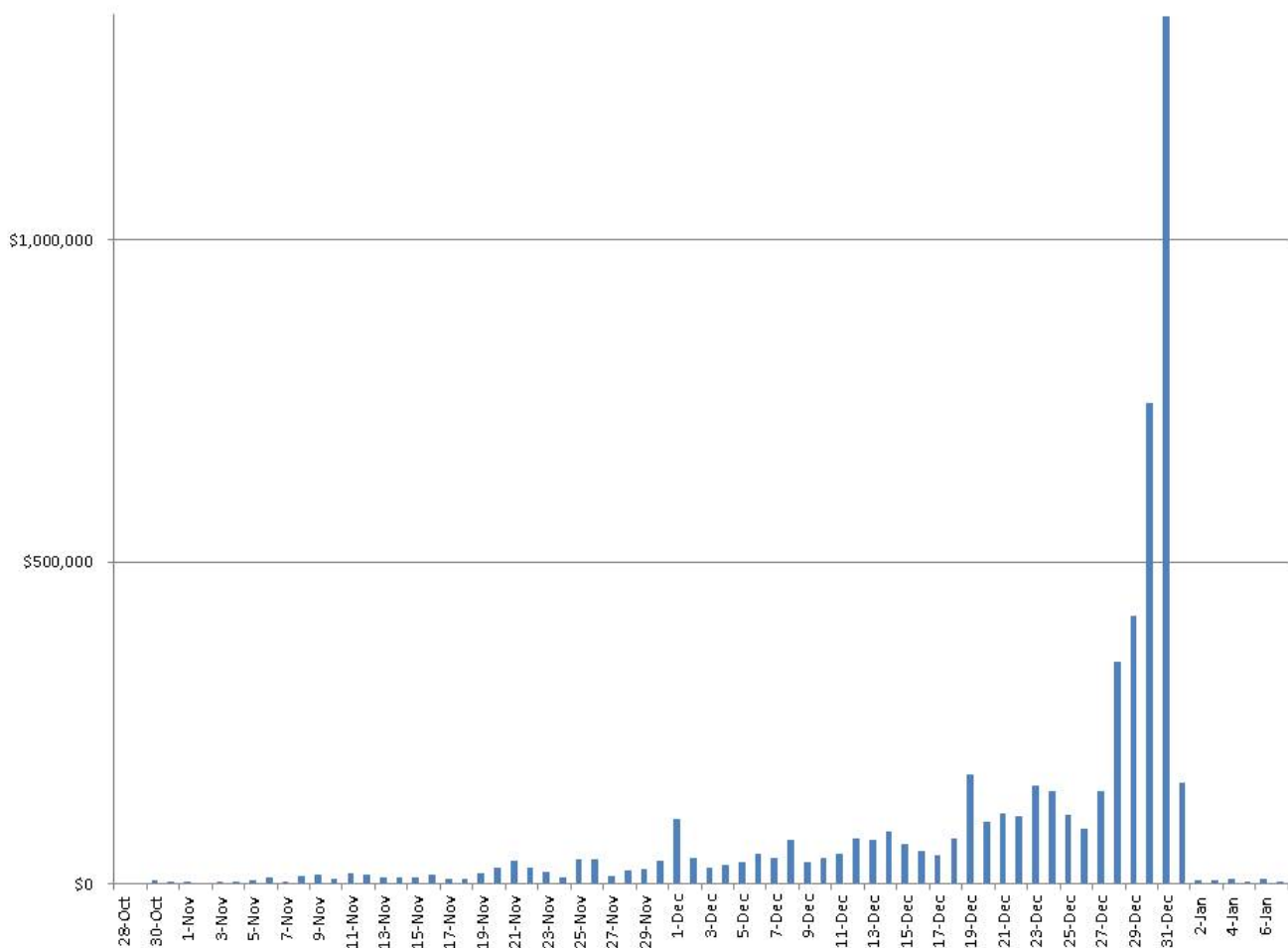
Twenty-five years after Drucker wrote his essay calling for charities to hold "themselves as accountable for performance and results," there is a buzz in the sector about this very topic. As the drumbeat grows louder from donors - both institutional and individual - who demand impact data, nonprofits are taking notice. And although only a handful of charities have executed on this issue, most nonprofits know that if they want to continue to satisfy their donors, then they need to jump on this bandwagon and start measuring and sharing their results.

Acknowledging the demand for impact data and getting charities to make good on that demand isn't enough to ensure the nonprofit sector reaches its full potential. Drucker also believes that donors need to be motivated to increase their generosity. And the one important motivating force for increasing donations that the Money for Good report doesn't discuss, but that Drucker discusses in the essay, is the impact of the charitable tax deduction. In my years at Charity Navigator, I haven't been able to understand why some in the nonprofit sector are so reluctant to discuss the impact tax policy has on giving and why some donors are too squeamish to admit it impacts their own giving.

Donors give for many reasons. Yes, the basis of those reasons is heartfelt. But I just don't see how the altruistic nature of giving is diminished simply because Uncle Sam is willing to sweeten the pot. Instead, I believe, as did Drucker, that tax policy can motivate donors to give more. And I have data to back up that belief.

First, it is a simple mathematical equation. Let's say a donor is in the 28 percent tax bracket and is planning on donating \$500 to a 501(c) (3) public charity. If that donor itemizes on their taxes, then the net cost of the contribution is only \$360. In fact, the donor would need to give nearly \$700 in order to have a net cost of \$500.

Second, as someone who has studied donor behavior for years, I can't fathom why year after year, donations will skyrocket on New Year's Eve - a night when we are busy celebrating with our loved ones - if it isn't because of the midnight deadline for gifts to qualify for the tax deduction. Just how big is the bump in donations at the end of the year? A whopping 56 percent of all the donations that flowed through the Giving Basket (the donation processing tool on Charity Navigator) in November and December 2015 occurred in the last five days of the year. And 25 percent took place just on New Year's Eve (see the chart below). And this isn't a trend exclusive to donors that give on Charity Navigator - studies have revealed that 20 percent of online donations take place in the last two days of the calendar year.



Yet, President Obama’s administration repeatedly put forth budgets that called for diminishing the tax benefit of charitable donations. Specifically, his budget proposals scaled back the tax deduction for those earning more than \$250,000 could take for their charitable giving from 33-35 percent to around 28 percent. What impact would this tax policy have? According to the Independent Sector, if Obama’s budgets would have passed with the charitable deduction caps, then giving would have dropped by as much as \$7 billion. The projections get direr if we remove the charitable deduction altogether. In that case, the Independent Sector predicts that annual giving would drop by 25-36 percent!

Moreover, this isn’t even a policy that’s popular among the public. Poll after poll shows that the majority of voters opposed eliminating the charitable deduction. In fact, those voters believe that any reduction in the existing charitable tax deduction would have a negative impact on nonprofits and their communities.

So, rather than limit or remove the charitable tax deduction, we should, as Drucker advocated, be looking for ways to expand it. In fact, there are lots of options that alone or in combination show some promise of increasing giving. These include: placing a floor on deductions, allowing non-itemizers to deduct, raising the limit on deductions above 50 percent of adjusted gross income, and allowing deductions up until April 15. Regardless of how we do it, I think the evidence is with Drucker - a tax policy that’s favorable to charitable giving will increase the level of giving in America.

In 1991, Drucker made a compelling case for how we can increase the relevance and the impact of the nonprofit sector in America. According to his beliefs, his vision would be realized by improving the productivity of the nonprofit sector and by doubling the amount of contributions flowing to the remaining high-performing charities. And that could happen if (1) nonprofits were better managed, (2) nonprofits improved the way they fundraise and (3) the U.S. government changed its tax policy to offer donors a bigger tax incentive.

Drucker's first two strategies are attainable if we can build on the buzz in the nonprofit sector around the importance of results. It isn't a new concept. Nonprofits have been saying for years that they should be judged based on the impact of their work. But the sad reality is that far too few charities have applied Drucker's management principles to their work. As somewhat of an insider, I know nonprofits are sensitive to and sick of hearing that they should apply for-profit standards to their operations. But I think Drucker's high-level formula for creating a successful for-profit venture does apply. That is to say, a high-performing nonprofit is clear about its mission, innovative in how it addresses the problem it seeks to remedy, able to articulate its intended results and diligent in measuring its impact.

To take it one step further, I think the very best charities are also willing to share that process and their results - the good and the bad - with the public. And when we know which nonprofits are achieving their intended outcomes, we can also expect donors to give more. That's exactly what the research behind the Money for Good report demonstrated as well as what I've observed working in the sector and talking with donors every day. In a world where we look for data on all of our consumer purchases - from books to stocks - it isn't surprising that more and more donors are not swayed by tragic stories and heart-wrenching appeals for help. They want to know the return on their social investment. And the charities that can clearly articulate their mission and demonstrate their impact will gain more market share.

And, finally, we need a culture in America that values philanthropy. To Drucker's point in his essay, this culture is supported by our country's tax policy. One look at the spike in giving on New Year's Eve shows beyond a shadow of a doubt the impact the charitable tax deduction has on giving. Drucker proposes that sweetening the deduction will result in much more giving.

Given the data I've seen, I think Drucker's right. Yet, President Obama's administration has tried (thankfully, unsuccessfully) to reduce the tax benefit of giving. Is that, as Drucker suggests at the end of his essay, because "...the success of the nonprofits undermines the bureaucracy's power and denies its ideology" or because "...the bureaucracy cannot admit that nonprofits succeed where government fails"? Whatever the motivation, I for one would like to see the next administration take a more favorable view of the charitable tax deduction.

So, in closing, I agree with Drucker. We can make America's nonprofit sector not only the largest in the history of mankind but also the most impactful. But that can only happen when nonprofits are utterly focused on bringing about meaningful and lasting results and social investors only support such nonprofits and that they do so more generously.

Free and Charitable Clinics Provide Critical Healthcare Safety Net for America's Uninsured

Amanda Missey



Twenty-five years ago, Peter Drucker, the Father of Modern Management, argued that government has proved incompetent at solving social problems, and that virtually every success has been achieved by nonprofits.¹

The government, if not incompetent, is certainly ineffective at solving disparities in access to healthcare. One attempted remedy – the Affordable Care Act – has succeeded in insuring 20 million people since it was passed in 2010; however, there are still an estimated 27.2 million people who do not have insurance². This group is made up of three significant categories: people who haven't signed up for insurance whether they qualify for tax credits or not, people who qualify for Medicaid but haven't enrolled and undocumented immigrants³. Even for those who do have insurance, high out-of-pocket expenses make being insured unaffordable for many.

People who are uninsured cost everyone money. They frequently seek treatment at hospital emergency rooms. Some arrive very ill because they waited to seek treatment or did not manage a chronic condition like diabetes. Others seek treatment for non-emergent issues like an earache or cold. Their care is paid for with tax dollars through charity care, and by shifting costs onto insured patients. Besides the direct cost of care, the yearly cost in lost productivity due to workers having chronic conditions is \$84 billion⁴.

Clearly, it pays to keep people healthy, especially those who are uninsured.

How has the nonprofit sector tackled the issue of access to healthcare? In the United States, there are approximately 1,200 nonprofit free clinics that provide healthcare to the underserved⁵. Of those, 98 are organized under the Volunteers in Medicine model, which utilizes volunteer medical professionals to provide free primary care to the uninsured.

One such clinic is Bergen Volunteer Medical Initiative (BVMI), located in Hackensack, N.J., which opened its doors to the working poor of Bergen County in 2009. Designed as a warm and welcoming primary care facility, BVMI was created to meet the healthcare needs of low-income, working residents of Bergen County who do not have health insurance.

Seven years later, BVMI sees nearly 1,000 adult patients in 6,000 annual patient visits. BVMI is a licensed ambulatory care center, staffed by more than 100 volunteer medical professionals and laypeople, supported by a small, paid clinical and administrative team. All practitioners are covered by FTCA (Federal Tort Claims Act⁶) malpractice coverage, provided free of charge by the Federal government as long as patients are not charged and providers are not compensated.

BVMI provides primary care, and has also created a network of partner organizations and physicians who agree to see patients – free of charge – for services that cannot be provided within its walls. BVMI partners with all five Bergen County medical centers, which provide diagnostic procedures like mammograms, colonoscopies and imaging services to BVMI patients. Quest Diagnostics processes all lab work for free, and BD provides free supplies. More than 200 specialists in private practice have also agreed to see patients, free of charge.

Patients must meet certain criteria in order to become and remain a patient: they must be working, live in Bergen County, earn up to 300 percent of the Federal Poverty Level and not have health insurance. Patients determined to be financially eligible are scheduled for a medical history, complete lab workup and appointment with a primary care physician or nurse practitioner. From that point on, they are BVMI patients and may be seen by appointment for routine well care, treatment of chronic conditions and urgent and sick visits.

In addition to primary care, BVMI also operates two signature programs: the Diabetes Care & Education Program and the Women’s Health Initiative. The diabetes team – comprised of a volunteer diabetologist, certified diabetes educator and nurse navigator – work one-on-one with patients to help them manage their disease. The Women’s Health Initiative provides each woman patient with age-appropriate well-woman care including family planning, cancer screenings, mammographies and mental health screening and treatment. An obesity program will launch in 2017.

Need for BVMI’s services – and a downtown revitalization effort in Hackensack – have necessitated a move to new quarters. BVMI is building out a new 5,000-square-foot clinic, also in Hackensack, that will expand the organization’s capacity to see patients by adding evening and weekend hours. The new healthcare center should be operational by early 2017.

BVMI’s entire \$1 million budget is provided by philanthropic support from individual, corporate and foundation donors; the organization receives no payment from patients, reimbursement from insurance companies or government funding. Without charitable support from generous donors, BVMI would have to close its doors, leaving 1,000 hard-working men and women with no access to ongoing primary healthcare.

While the Affordable Care Act succeeded in reducing the number of uninsured, more than 27 million people remain without coverage. In 2017, with the advent of a Republican-controlled White House and Congress, changes in the healthcare landscape are looming. While the outcome is uncertain, the changes will almost certainly result in increasing numbers of uninsured.

Free and charitable clinics, which have been serving the nation’s working poor since the 1960s, are the nonprofit sector’s attempt to reduce disparities in access to healthcare. Most of these clinics operate with little or no state or Federal funding, relying instead on philanthropic support. For every dollar donated to a Free or Charitable Clinic, a minimum of \$5 of services is given to a patient⁷, making this model an extremely effective and efficient means of providing care to the underserved.

Peter Drucker proposed three things that need to happen in order for nonprofits to realize their potential. Two were internal to the organization (they must be well-managed, they must learn to raise money), but the last was placed outside the organization and squarely on the shoulders of government. Drucker believed that the attitude of government and government bureaucracies must change, and argued for increased tax incentives to encourage individuals to donate charitable dollars, saying it would solve the nonprofit money problems at once.

Unfortunately, current thinking does not support Drucker's contention. Both candidates in the 2016 presidential race proposed tax reform that would reduce tax incentives for charitable giving, especially for big donors. While the effects are indirect, the Tax Policy Center estimates that Trump's plan would reduce individual giving by 4.5 percent to 9 percent, or between \$13.5 billion and \$26.1 billion in 2017⁸.

Twelve hundred free and charitable clinics do not begin to meet the need of the 27.2 million uninsured in the United States, but have proven an effective model for providing care, leveraging the power of highly-skilled volunteers and philanthropic support from those who believe that access to healthcare is a right, not a privilege. For Drucker's vision to be realized – where nonprofit organizations, instead of government, assume the role of providing social services – public policy must change. The convergence of changes to both healthcare and tax policy may well mean that fewer people will have access to healthcare, and that nonprofit organizations will be competing for an ever-shrinking pool of resources.

Notes

¹ Drucker, Peter. "It Profits Us to Strengthen Nonprofits." *Wall Street Journal*. December 19, 1991

² Kaiser Family Foundation, 2016, www.kff.org

³ Cooper, Lara. "Even with Obamacare, 29 Million People are Uninsured: Here's Why." www.thefiscaltimes.com. May 10, 2016

⁴ Liu, Diana and Witters, Dan. "In US, Poor Health Tied to Big Losses for All Job Types." *Gallup.com*. May 7, 2013

⁵ www.nafc.org

⁶ www.bphc.hrsa.gov/ftca/freeclinics

⁷ National Association of Free & Charitable Clinics, 2016. www.nafc.org Joseph Rosenberg, C. Eugene Steuerle, Chenxi Lu, and Philip Stallworth. "Both Clinton and Trump would reduce tax incentives for charitable giving." www.taxpolicycenter.org. November 7, 2016

⁸ Joseph Rosenberg, C. Eugene Steuerle, Chenxi Lu, and Philip Stallworth. "Both Clinton and Trump would reduce tax incentives for charitable giving." www.taxpolicycenter.org. November 7, 2016

The Ideology of the Welfare State and Charitable Organizations

Murray Sabrin



Very few observers and analysts of American business would quibble that Peter F. Drucker was the 20th century's greatest management theoretician and business consultant. In his books, essays, articles and consulting practice spanning more than seven decades Drucker's students and his clients have acknowledged his keen insights about successfully managing a business or nonprofit organization (<https://vimeo.com/5068508>).

For more than half a century Mr. Drucker shaped the way we looked at business management, providing managers with the tools to make their enterprises more successful than they had been. And in the last two decades of his life Mr. Drucker applied his insights about organizational behavior and structure as a consultant to nonprofit organizations. Therefore, it was not surprising that his essay, "It Profits Us to Strengthen Nonprofits," appeared on the editorial page of the *Wall Street Journal* (Dec. 19, 1991), where he applied his half-century of experience in calling for a new paradigm in dealing with social issues.

Given that the fiscal realities of the early 1990s, Mr. Drucker observed, "Federal, state and local governments will have to retrench sharply, no matter who is in office. *Moreover government has proved incompetent solving social problems. Virtually every success we have scored has been achieved by nonprofits* (emphasis added). In addition, Drucker's other key points are: "Many of the most heartening successes are being scored by small, local organizations;" "the average nonprofit must manage itself as well as the best managed ones do;" "nonprofits have to learn how to raise money;" "we need a change in the attitude of government and government bureaucracies." In the concluding section of his essay, Mr. Drucker asserts that government bureaucrats are in general hostile to nonprofits because, "*the success of the nonprofits undermines the bureaucracy's power and denies its ideology* (emphasis added). Mr. Drucker concludes that what is needed in America is quite simple: "a public policy that establishes the nonprofits as the country's first line of attack on social problems."

Mr. Drucker's essay provides fuel for critics of America's welfare state who see all levels of government engaging in counterproductive efforts to help lift people out of poverty and address some of the most intractable issues facing individuals and families, such as drug addiction, homelessness and other social ills. But as Mr. Drucker points out, the entrenched bureaucracies' hostility toward nonprofits and ideological position are strong headwinds for his vision of "nonprofitization" to deal with social issues.

This essay will focus on the ideological underpinnings of both the welfare state and the nonprofit sector. By understanding the creation and evolution of the welfare state, the current generation of Drucker disciples will have the intellectual ammunition to offer a social agenda that will achieve the goals the welfare state promises but has failed to deliver. In addition, proponents of nonprofitization also need to show how voluntary social organizations are quintessential institutions reflecting the values of American culture that attracted peoples from overseas to build lives in the vast continent from the Atlantic to the Pacific oceans.

What is the origin of America's welfare state? There are several theories that have been developed to explain how America became a welfare state. One theory asserts that industrialization and urbanization of 19th-century caused the masses to demand the welfare state to provide them with security given the uncertainty of the market economy and "alienation" of urban living. None of this seemingly plausible explanation is that the welfare state was in effect a mass movement generated by the "poor, the masses or the oppressed working-class." Supposedly, labor unions, epitomizing aspirations of the working-class, were the primary driving force for the adoption of a welfare state in America.

In an extensive essay published shortly after his death in 1995, economist, historian and political philosopher Murray Rothbard addressed these assertions and reached the following conclusion. America's welfare state was created because of the confluence of several factors. Rothbard pointed out that ideology, including religious beliefs and economic interest were "two forces that joined together to bring about the welfare state." (Rothbard)

Rothbard's thesis rests upon the following observations. First, religious ideas promulgated by many Protestant churches in the Northeast region of the country beginning around 1830 focused on "each believer's sacred duty to devote his energies to trying to establish a Kingdom of God on Earth, to establishing the perfect society in America and eventually the world, to stamp out sin, to 'make America holy'..." Against this backdrop Rothbard pointed out that the agenda of the so-called Yankees was clear: government was needed for the salvation of individuals, the following goals proclaimed, prohibition, abolition of slavery, and making Sunday a day of rest. Not only religious leaders considered ending slavery a moral imperative but also a growing consensus viewed slavery as an abhorrent institution. Second, two economic special interest groups supported America's welfare state experiment. "One was a growing legion of educated (and often overeducated) intellectuals, technocrats, and the 'helping professions' who sought power, prestige, subsidies, contracts, cushy jobs from the welfare state, and restrictions of entry into the field forms licensing. The second was groups of big businessmen who, after failing to achieve monopoly power on the free market, turned to government – local, state, and federal – to gain it for them. The government would provide subsidies, contracts and, particularly, and enforced collateralization. After 1900, these two groups coalesced, combining two crucial elements: wealth individuals and opinion-molding power, the latter no longer hampered by the resistance of the Democratic Party committed to laissez-faire ideology. The new coalition joined together to create and accelerate the welfare state in America." (Rothbard)

Another element in the creation of a comprehensive welfare state in America was the establishment of the Women's Christian Temperance Union (WCTU) in 1874. In addition to calling for the prohibition of alcohol, the WCTU was instrumental in supporting widespread government intervention to improve social welfare. "These measures included the outlawing of license brothels and red light districts, imposition of maximum eight hour working day, the establishment of government facilities for neglected and dependent children, government shelters for children of working mothers, government recreation facilities for the urban poor, federal aid to education, mother's education by government, and government vocational training for women" (Rothbard). Also, the WCTU reported lowering the age for kindergarten so educational professionals could guide children early in life (Rothbard).

Perhaps one of the most influential proponents of establishing welfare state in America was the economist Richard T. Ely, founder of the American Economic Association, who graduated from Columbia University in 1876. Ely wanted to obtain a PhD studied in Germany with other Americans who wanted to study history, philosophy and other social sciences. (The United States did not offer this terminal degree as of 1880s.) At age 28, Ely became an instructor in political economy at Johns

Hopkins University, America's first graduate university. After being denied a full professorship at Hopkins, Ely became a professor at the University of Wisconsin in 1892 and director of the Institute, the School of Economics, Political Science and History. In addition to his academic work Ely became an advisor to Progressive Gov. Robert M LaFollette who adopted many social welfare programs at the state level (Rothbard).

To understand the passion of Ely and other 19th century welfare state proponents, the following statement by him sums up the ideology that is the underlying foundation for their embrace of the welfare state, "God works through the State in carrying out His purpose more universally and to any other institution." And this grandiose purpose is to create a "New Jerusalem" in America.

As Ely and others were creating the theoretical framework for the welfare state, "Yankee women Progressives provided the shock troops the progressive movement and hence the burning welfare state" (Rothbard). Jane Addams, one of the leading proponents of the welfare state, devoted her life social work Chicago slums. Adams colleague at Hull House Julia Clifford Lathrop was an important figure in the spread of social welfare ideas in America. In 1912, Pres. William Howard Taft appointed her head of the first U.S. Children's Bureau. "After World War I, and the Children's Bureau lobbied for, and pushed through Congress in late 1921 the Shepherd - Towner Paternity and Infancy Protection Act, providing federal funds to states that set up child hygiene for child welfare bureaus, as well as providing public instruction in maternal an infant care by nurses and physicians. Here we had the beginnings of socialized medicine as well as the socialized family" (Rothbard).

The next generation social welfare proponents, most of whom born in the 1880s, a generation after Richard Ely and his cohort began agitating for government—that is, taxpayer financed--social programs, included such notable figures as future first lady Eleanor Roosevelt, future secretary of labor Frances Perkins and FDR's close confidant Harry Lloyd Hopkins (Rothbard).

As the next generation of welfare proponents was being born in the 1880s, in Germany, Chancellor Otto von Bismarck was sponsoring a comprehensive welfare state in response to the popularity of the social Democrats. Bismarck supported legislation that "guaranteed every German national health insurance, of pension, a minimum wage and workplace regulation, vacation and unemployment insurance." Bismarck explained his support for these left-wing proposals by stating "my idea was to bribe the working classes, or shall I say, to win them over, to regard the state as a social institution existing for their sake and interested in their welfare." Moreover, the welfare state "ideology" was rooted in the belief that welfarism was the logical evolution of human development. As one American admirer of the German welfare state observed, "the individual exists for the state, not the state for the individual" (Ebeling, 2007).

With the election of Franklin Delano Roosevelt in 1932 America's welfare state took a great leap forward with his New Deal programs. This episode in American history illustrates economist Robert Higgs' thesis that a "crisis," in this case the onset of the Great Depression, made it possible for FDR to propose and expand the role of government in America, especially by providing direct monetary benefits to the unemployed and others suffering during the greatest economic downturn in our history. (Higgs)

Of all FDR's social welfare programs Social Security has become the so-called third rail of American politics, because if a politician tries to tamper, tinker with it the voters "zap" him at the polling booth. Because of the popularity of Social Security the accepted narrative is that FDR proposed Social Security to provide old age security for working folks in America, and businesses opposed it lock stock

and barrel. The evidence suggests otherwise. “[Big business] almost all back the Social Security scheme to the hilt while it was attacked by such associations of small business as the National Metal Trades Association, the Illinois Manufacturing Association, and the National Association of Manufacturers. By 1939, only 17 percent of American businesses favored repeal of the Social Security Act, while not one big business firm supported repeal” (Rothbard).

A common view of business is that they all have the same interests, namely little or no government intervention in the marketplace. The creation of Social Security shows that many big business interests wanted to raise the cost of doing business for smaller enterprises and thus make them less competitive in the marketplace.

The historical record could not be any clearer; ideology buttressed by religious doctrines laid the foundation welfare state that grew over the past hundred years. And when a crisis occurred, the opportunistic political class had little opposition in expanding the welfare state in America. Not surprisingly then, there has emerged a bipartisan consensus in Washington, D.C., to maintain the so-called social safety net for the country’s most vulnerable citizens (Bresiger). To debate in Washington, D.C., centers around how much the welfare state should grow a year, not whether we should have a welfare state.

The rise of voluntary associations

Although there were elements of the welfare state in colonial America, the idea of a national welfare state was anathema most Americans. In fact, in the early days of the Republic the so-called helping activities were considered a local government or community responsibility.

America’s social culture focused on family and community. As David T. Beito points out, Alexis de Tocqueville recognized one of America’s greatest strengths when he (Tocqueville) wrote: “Americans of all ages, all conditions, and all dispositions constantly form associations... The Americans make associations to give entertainment, to found seminaries, to build things to construct churches to diffuse books... Whenever at the end of some new undertaking you see the government of France, or a man ranked in England, in the United States, you will be sure to find an association” (Beito).

Beito chronicles the rise of fraternal societies beginning with the Freemasons, the Odd Fellows, the Ancient Order of United Workmen and scores of other organizations that attracted members throughout the country who received benefits such as sick and disability payments as well as life insurance for the beneficiaries. “...members of nearly all ethnic and national groups corrected formidable networks of individual and collective self-help for protection.”

The glue that held these organizations together was a value system based upon self-reliance, thrift, self-government, self-control and good moral character. “These values reflected a fraternal consensus that cut across such seemingly intractable divisions as race, gender, income” (Beito).

With the passage of the Social Security Act of 1935 the long decline of fraternal organizations began. Ironically, many fraternal leaders supported the expanding welfare state as a “logical extension of fraternalism” and a way to cut costs during the Great Depression (Beito). Nevertheless, some fraternal leaders expressed harsh criticism of the expanding welfare state. One fraternal leader stated: “Rugged individualism is crowded out and people lose their ambition and become listless as they dropped toward the valley of delusions called socialism” (Beito).

In concluding his comprehensive study of fraternal societies, David Beito writes:

The shift from mutual aid and self-help to the welfare state has involved more than a simple bookkeeping transfer of service provision from one set of institutions to another. As many of the leaders of fraternal societies have feared, much was lost in exchange that transcended monetary calculations. The old relationships of voluntary reciprocity and autonomy have slowly given way to paternalistic dependency. Instead of mutual aid, the dominant social welfare arrangements of Americans have increasingly become characterized by impersonal bureaucracies controlled by outsiders.

Conclusion

The welfare state was not born out of “an immaculate conception,” that is, it did not arise organically as a spontaneous, voluntary response to the needs of the people. The hallmark of the welfare state is that involuntary means are appropriate to justify laudable ends, namely, helping individuals and families who are facing a myriad of issues, ranging from low or no income, homelessness, medical needs and old age income security.

Charitable associations, on the other hand, were created consistent with the culture that took root in America-- the spirit of helping neighbors voluntarily.

Notes

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