


THE CRISIS OF THE NONPROFIT SECTOR:
IMPLICATIONS FOR FOUNDATIONS

by

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Dear Friends and colleagues,

I come before you today with two messages--one of them a warning, and the other a plea.

The **warning** at base is this: I am increasingly convinced that the nonprofit sector, about which we all care so much, is facing a significant, if not fundamental, crisis at the present time.

Fortunately, I also see possible ways out of this crisis. But unless the situation facing the nonprofit sector is clearly understood and resolutely confronted, I fear that the sector will grow increasingly alienated from the society it seeks to support.

My **plea** is that all of you in this room acknowledge this crisis and respond to it. More specifically, I would like to call on you to join what is now

still possibly the smallest affinity group in our sector--namely the affinity group of "**FUNDERS CONCERNED ABOUT THE NONPROFIT SECTOR.**"

In the minutes available to me this afternoon, therefore, I want to do four things:

First: Outline what I see as the crisis facing our sector;

Second: Examine why I think this crisis has developed;

Third: Explain what I think can be done do about all of this; and

Finally: Indicate what I believe the role of foundations should be.

I. THE CRISIS OF THE VOLUNTARY SECTOR

This is not the first time, of course, that the nonprofit sector has confronted a crisis. The assault on private foundations leading to the 1969 tax act and the Reagan budget cuts of the early 1980s are just two of the most recent instances. Indeed, crisis is so common an aspect of the life of this sector that it has almost come to be regarded as normal. Claims of another crisis in the nonprofit sector might therefore properly prompt skeptics to recall Mark Twain's infamous comment that the news stories reporting his death had been "greatly exaggerated."

Exaggerated or not, however, the challenge facing the American nonprofit sector today seems greater than at any time in its recent history.

On one level, this challenge is **fiscal** in character: The nonprofit sector is facing further, rather major reductions in a critical part of its financial base--i.e. its government support--and does not appear likely to be able to make this up from its traditional financial base--i.e. private charity.

Even more seriously, however, the challenge is **philosophical** and **political** in character: **the nonprofit sector seems to have lost a large part of its claim on the sympathies of the American public.**

- o Like government, it is increasingly viewed not as part of the solution, but as part of the problem.
- o Indeed, the nonprofit sector has been implicated in the general assault on what serves as the American version of the modern welfare state and is being painted with the same broad brush of criticism as a consequence.

A. Fiscal Crisis

The fiscal aspect of the current crisis of the nonprofit sector is, of course, the easiest to see and has therefore attracted the most attention.

It is now widely acknowledged that the current Republican majority in Congress is likely to have far more success than even the Reagan Administration did in the early 1980s in slashing Federal spending on programs of greatest concern to nonprofit organizations and changing the shape of the Federal program structure, thereby reducing significantly the support that nonprofit organizations have secured by virtue of their partnerships with government.

These changes are likely to affect nonprofit organizations in at least three ways:

- o **First:** by increasing the demand for the services that they provide in such fields as health, education, social services, employment and training, counseling, day care, and social welfare more generally;
- o **Second:** by reducing the resources the sector has available to meet this demand; and
- o **Third,** by shifting the locus of decision-making for whatever resources that remain in the system more fully to the state and local level, but without the assistance of federal requirements with respect to

maintenance of effort, protection of quality, or protection of those in greatest need.

NONPROFIT ORGANIZATIONS WILL THEREFORE FIND THEMSELVES DOING MORE WITH LESS WHILE FIGHTING TO REESTABLISH IN 50 DIFFERENT PLACES PROTECTIONS THEY HAD STRUGGLED FOR A GENERATION TO ESTABLISH NATIONALLY.

The scope of the changes that seem to be in the offing are quite staggering, moreover.

- o The Continuing Resolution under which major parts of the government are operating at the present time already slices 25 percent out of the prior levels of spending for a broad range of discretionary programs in which nonprofit organizations are deeply involved--from summer jobs to community development and community mental health.
- o Under the **Congressional Budget Resolution** passed by both houses of Congress this summer:
 - Federal spending on programs of interest to nonprofit organizations in such fields as health, education, social services, cash and in-kind assistance, employment and training, housing and community

development would decline 21 percent, or \$197 billion, below baseline spending levels by FY 2002.

- This translates into a cumulative reduction of \$773 billion in Federal spending below baseline levels in these program areas during the next seven years. This means that the Congressional budget plan called on this set of programs, which make up only 38 percent of the budget, to absorb 55 percent of the cuts required to meet the Congressional budget goals.
- Because nonprofit organizations are deeply involved in helping to deliver publicly financed services in many of these areas, these changes would translate into direct revenue losses to nonprofit organizations in these fields. Overall, the level of federal support to nonprofit organizations would decline by 26 percent between 1995 and 2002 under these plans, slicing a total of \$ 70 billion out of the support that such organizations would have had available from federal sources had existing law remained in effect. Over the entire 7-year period, nonprofit organizations stood to lose \$263 billion in federal support.

- o Even under the budget compromise that seems to be emerging as a result of the stand-off between the President and the Congress:
- Nonprofits will lose \$150 billion in federal support over the next 7 years compared to what would have been available. By the year 2002, such federal support would be \$42 billion less than currently projected--better than the \$70 billion under the Congressional Budget Resolution, but still quite significant.
 - More generally, under this compromise \$460 billion will be cut out of federal spending on programs of direct concern to nonprofit organizations, better than the \$773 billion proposed in the Congressional plan, but still leaving a still-considerable gap in coverage in key areas, from social welfare to environment and the arts.

The Moral Challenge

Behind the fiscal challenge facing the nonprofit sector at the present time, however, is a much more serious and profound **moral or political crisis**, a fundamental questioning of the whole concept of the nonprofit sector.

In a sense, the bottom is threatening to fall out of popular support for the charitable sector, leading to a host of embarrassing questions about why this sector should exist and whether there is truly a justification for the special tax and other advantages it enjoys.

That these questions are being stimulated by conservative opponents seeking to discredit a set of institutions that has figured prominently in the extension of governmental social welfare, civil rights, and environmental protections does not take away from the force of the resulting questioning that their criticisms have stimulated.

There is a certain irony in this, of course. Elsewhere in the world, a massive "associational revolution" is under way, as people have been turning to private, nonprofit organizations in increasing numbers to replace a flawed welfare state, to promote development, to protect the environment, and to give effective organizational expression to a wide range of political and policy positions.¹

While these developments are going forward, however, here in the United States widespread questions are being raised about the value of the nonprofit sector, and about the tax and other privileges these organizations enjoy. Thus:

- o **Local governments** have become increasingly aggressive in challenging the tax deductions of nonprofit organizations. Such challenges are particularly active in Pennsylvania, New York, New Hampshire, Oregon, Maine, and Wisconsin.
 - A recent study in Pennsylvania found that at least 2/3 of Pennsylvania counties are actively seeking taxes or payments in lieu of taxes from nonprofits.
 - In one of the most celebrated cases, an Appeals Court in Pennsylvania overruled more than 350 years of legal development that had firmly implanted the idea that education is an inherently "charitable" activity and ruled that a private, nonprofit college no longer qualified for charitable status under state law because only a small fraction of its students were poor. Although this ruling has since been reversed, it suggests the extent to which support for charitable institutions has eroded in this country.
- o The infamous **Istook Amendment** at the Federal level brings the same questioning to one of the other fundamental functions of the voluntary sector--its advocacy and representational function. Under this

amendment, nonprofit organizations receiving federal grants would be severely limited in using even their private revenues to support advocacy and representational activities.

- o Independent Sector's surveys of giving and volunteering indicate that only about one-third of the American population expresses "a great deal" or "quite a lot" of confidence in nonprofit organizations outside of religion or education as of 1994. This is well above the 15 percent who express this level of confidence in the Federal Government and the 23 percent who have "a great deal" or "quite a lot" of confidence in state governments. But it is still far behind the 47 percent confidence levels the Federal Government enjoyed in 1975, and the 52 percent and 48 percent levels that small businesses and the military enjoy today.²

II. EXPLAINING THE CRISIS OF THE NONPROFIT SECTOR

How can we explain this assault on the nonprofit sector and the crisis of confidence in this sector that lies behind it? What is it that is sapping public faith in a sector that has long claimed to be acting in the public interest?

Far more is involved here, I believe, than the recent highly publicized scandals that have recently rocked this sector--the Aramony incident and the New Era Philanthropy story.

Nor is this dramatic crisis of confidence merely another chapter in the long-running story of American hostility to government. Far more seems to be involved, and it extends well beyond government to the helping professions, and helping institutions, more generally.

More specifically, I believe three more basic factors are at work.

A. Middle Class Angst

The first of these factors is middle class *angst* and anxiety. In a word, the vast majority of the American population is finding it increasingly difficult to move ahead, and large numbers are finding it necessary to work much, much harder simply to hold their own. For perhaps the first time in our collective history, hundreds of thousands of Americans are experiencing economic pressures that seem to be moving the American dream well beyond their reach. The evidence here is quite striking:

- o For example, the average wage of the American worker, after climbing steadily from the end of the Second World War through the early 1970s, has been declining steadily in real terms since then.
- o American families have reacted to this situation by sending more wage earners into the workforce. But even after taking account of the increased labor force participation of women--which, not incidentally, has reduced America's reserve army of volunteers and the time devoted to child-rearing--the average earnings of the bottom 60 percent of American families declined between 1979 and 1986, the latest date for which data are available.³
- o Although some of these families managed to boost their total income even though their earnings from work declined, this was largely due to transfer payments from government, payments that will be declining if the current Congressional budget proposals become law.
- o Perhaps not surprisingly, faith in the "American dream" has begun to wither as a consequence. A recent Robert Teeter poll for the Council on Excellence in Government thus found that only 49 percent of Americans polled believe that their children will enjoy a higher standard of living

than they do. What is more, the more educated and well off the respondent, the more pessimistic about the prospects for their children.

Given these economic realities, it is understandable--if still regrettable--that a significant portion of the American public is angry and fed up. The result is a free-floating climate of resentment and fear, precisely the kind of climate that lends itself to hate-mongering and scape-goating.

B. Growing Mismatch Between the Image and the Reality of the Voluntary Sector

If the current crisis of the nonprofit sector is fundamentally being fueled by the growing economic frustration of the American middle class, it is being abetted by a growing mismatch between the actual operation of the voluntary sector and popular conceptions of what this sector is supposed to be like, conceptions that the sector itself has helped to promote

In a sense, the nonprofit sector is being hoisted on its own mythology. Having failed to explain adequately to the American people what its role should be in a mature welfare state, the sector has been thrown on the defensive by revelations that it is not operating the way its own mythology would suggest.

In its public persona, the nonprofit sector still holds to a quaint nineteenth century image of charity and altruism, of small voluntary groups ministering to the needy and downtrodden. In reality, however, the actual operations of the nonprofit sector have become far more complex:

- o For one thing, the **financial base** of the nonprofit sector has become far different from what the contentional image would suggest:
 - The sector's self-image stresses private philanthropy as the principal source of support;
 - In fact, however, the largest source of income is fees and charges, which outdistances private giving by a factor of 2 ½ to 1.
 - Indeed, Yale Law Professor Henry Hansmann argues that a wholly new type of nonprofit organization has made its appearance in the past 30 years--the *commercial nonprofit*--for which neither existing laws nor existing concepts are appropriate.
 - Yet these large organizations supported chiefly by fees and charges now account for more that 60 percent of the expenditures of the nonprofit sector.

- o Equally important has been the growth of partnerships between the nonprofit sector and the state.
 - Government support now accounts for 40 percent of nonprofit revenue in certain fields;
 - The resulting partnerships have much to recommend them, combining as they do the superior flexibility and service delivery capabilities of the nonprofit sector with the superior fundraising and direction-setting capabilities of the nonprofit sector.
 - Yet these important partnerships have hardly been fully integrated into our concept of the sector and consequently remain somehow suspect.

- o **So, too, with certain other salient features of our sector, such as:**
 - Pay and perquisites that at least some consider inappropriate;
 - A focus that extends well beyond the poor and the disadvantaged;
 - Professionalization and bureaucratization, which threatens to undermine the role of volunteers; and
 - Representational mechanisms in some advocacy organizations that are imperfect at best.

I am not saying that these features and developments are bad or unwarranted.

What I am saying is that they diverge rather sharply from popular conceptions of this sector, and too little effort has gone into bringing popular conceptions into better alignment with reality.

As a result, the sector is vulnerable to any manner of "cheap shots" and exposés that point to the sector's current realities as an indictment of its current mission, as the recent *Philadelphia Inquirer*, *Crain's Business Review*, and Pennsylvania Circuit Court case have done. Without effective explanations of these developments, the nonprofit sector has been left largely defenseless.

C. Rise of New Right Propaganda

This brings me to the **third major factor** helping to explain the crisis in which I believe the nonprofit sector finds itself: **the emergence of a right-wing campaign dedicated to discrediting the nonprofit sector.**

The good news about this campaign is that it is not really personal.

The bad news is that it is also **not accidental.**

The attack on the nonprofit sector is a strategically important part of the overall conservative assault on the welfare state, or at least on what stands for it

in the United States. Conservatives recognize that nonprofit organizations have become pivotal support networks for the modern welfare state:

- o By identifying new problems and new approaches, nonprofits create pressures for new governmental protections.
- o Even without receiving a dime of federal money, nonprofit organizations thus pose a challenge to the conservative agenda. **Simply by carrying out one of their central functions--to serve as a vanguard and innovator, to give voice to the voiceless--nonprofit organizations have become anathema to the conservative cause.**

The upshot has been a steady campaign of news stories, research reports, talk show commentary, and now legislation designed at the least to discredit major segments of the nonprofit sector, and at best to prevent the sector from performing this advocacy role and restrict it instead to a purely service delivery function.

III. WHAT TO DO?

How, then, should the nonprofit sector respond to this situation? What should be done to overcome the fiscal and political crisis that the nonprofit sector faces at the present time?

Broadly speaking, three (3) strategies are available:

A. Accommodation

The first such strategy is **accommodation**, or **strategic retreat**.

In a sense, this was an important part of the reaction to the similar challenge that the sector faced in the early 1980s, and there are important arguments to be advanced in behalf of it.

There are, after all, important voices in our sector who believe that the current assault on the nonprofit sector, like the one in the early 1980s, is at least partly warranted:

- o That nonprofit organizations have become too dependent on government;
- o That this has undermined the private charitable, and volunteer, base that has historically been the key to this sector's uniqueness and its success;
- o That there are too many nonprofit organizations with too few mechanisms for accountability and that more competition and improved business methods would improve the sector's performance.

By cutting back on government support, this argument goes, the nonprofit sector would be forced to **return to its historic charitable roots**, would

become more efficient, and would reconnect to the constituencies it is supposed to serve.

While there is much to recommend this strategy, however, it also has serious limitations:

(1) No Golden Age

For one thing, the "golden age" of purely private nonprofit action that is widely used as a basis for opposing government support of the nonprofit sector has been exceedingly difficult for scholars to locate. In point of fact, collaboration, not conflict or competition, has been the characteristic relationship between the nonprofit sector and government for most of our history:

- o Until the latter 19th century, nonprofit organizations were thought of as part of the "public sector" because they contributed to the solution of public problems;
- o Reflecting this, a rich pattern of collaboration existed between nonprofit organizations and government at all levels.
- o The Commonwealth of Massachusetts, for example, enacted a corn tax for the support of Harvard College in the 1600s.

- o The Governor and several members of the Connecticut legislature were members of the Board of Yale College until the mid-19th century;
- o Two-thirds of the government moneys used for aid to the poor in New York City in the 1890s went to private, voluntary groups.
- o Although these relationships may have grown significantly in scope and scale in the 1960s and 1970s, they are hardly new. This has led me to begin several of the speeches I have given about the impact of federal budget cuts on nonprofit organizations with an old Russian proverb which holds that: **"The future will take care of itself. It's the past we have to worry about."**

The nonprofit sector is unfortunately finding itself in the grip of a view of the past that is seriously at odds with the facts, leading to misguided policies that seek to create a "golden age" that never really existed.

(2) Self-Defeating

Not only is the accommodation strategy built on an erroneous view of the past, it is also potentially self-defeating in terms of the sector's long-term health and survival.

Central to the accommodation response is the belief that private giving and voluntary activity can fill in meaningfully for the reductions in government support that the nonprofit sector is likely to endure as a result of budget cuts.

Even if we assume that a significant share of the federal spending represents waste, the likelihood that this might happen is exceedingly remote. Compared to an actual growth rate of private giving of about 4 to 5 percent per year over the period 1980-1994:

- o Giving would have to grow by 7 percent in 1996, by 14 percent in 1997, and by 50 percent as of 2002 in order to offset just the revenue losses that nonprofit organizations will experience as a result of the budget cuts embodied in the emerging Presidential/Congressional compromise. These are increases of anywhere from 3 to 10 times the historic rates of increase.

- o To offset the much larger overall cuts in federal spending in support of clientele that nonprofits also serve, the rates of growth in giving would need to be higher still--21 percent in 1996, 50 percent in 1997, up to 160 percent in 2002.

Such growth in private giving seems unlikely at best.

- Recent Independent Sector data indicate that the share of household income being devoted to charitable giving has actually been declining--from 2 percent in 1989 to 1.7 percent in 1993;
- Reflecting this, during the past five years the rate of growth in private giving has fallen off considerably--down to *less than 1 percent in real terms*.
- Similarly, the average contribution per return among upper income taxpayers has declined steadily from the early 1980s to the early 1990s--from over \$200,000 in 1980 to just over \$60,000 in 1993.

The more likely response, therefore, is that nonprofit organizations will turn even more to fees, service charges, and other essentially commercial forms of income to finance their operations.

This certainly is the message of the 1980s:

- o During this period of government budget cuts, nonprofit organizations turned massively to fees and charges to finance their activities. In fact, this one source accounted for 55 percent of the growth in income that the nonprofit sector secured during this period.
- o By contrast, private giving supplied only 15 percent of the new income so that its share of the total actually declined.

This can be a highly self-defeating course, however:

- o It seriously blurs the line between nonprofit organizations and for-profit businesses;
- o It thus accentuates the division within the nonprofit sector that Henry Hansmann warned against, increasing the power and visibility of the "commercial nonprofits" at the expense of the "donative" or public-oriented nonprofits.

- o It also sharpens the divisions between public-benefit nonprofits cooperating with government and organizations focusing more on fee-paying customers.

B. Resistance

This brings us, therefore, to a second possible strategy for the nonprofit sector in the face of the budget crisis it faces: the strategy of *resistance*.

Under this scenario, the nonprofit sector should focus primarily on lobbying efforts to resist the cuts being proposed in federal spending on programs of interest to the nonprofit sector and those it serves.

Not only should it fight these cuts at the federal level, but also, it should mount similar campaigns at the state level to ensure that the new federal block grants do not become an invitation to further shredding of the social safety net available to protect the most vulnerable of our people.

This strategy has much to recommend it. If nonprofit organizations do not rally to support those most vulnerable, who else will? Protecting vulnerable populations is a solemn obligation of nonprofit organizations. If it stands for anything, this sector must stand for this.

The problem, however, is that the ground that the nonprofit sector would try to defend through resistance is collapsing underneath it. Like Archimedes, who boasted he could "move the earth if you give me a place to stand," the nonprofit sector currently lacks a sufficient political base from which to mount an effective campaign of resistance. The Democratic Party, which was available to resist the earlier assault on programs of interest to nonprofit organizations, may no be longer capable of such feats of endurance. While we may not yet be ready for the sequel to the "Million Man March" that a recent Washington Post cartoon suggested, namely the "Dozen Democrat March,"⁴ the fact that 137 Democratic officeholders have switched to the Republican Party since Mr. Clinton became President, and that Republican moderates also seem to be a vanishing breed, suggests the dilemma that confronts any strategy of all-out resistance at the present time.⁵

C. Renewal

This brings me, then, to the third possible strategy, and the one that I tend to favor.

It is a strategy perfectly in keeping with the traditions of this sector, since one of its most effective proponents is one of the nonprofit sector's leading lights.

I am speaking, of course, about John Gardner, and about the strategy of **renewal**. As Gardner put it in his book, *Self-Renewal*:

"Unless we attend to the requirements of renewal, aging institutions and organizations will eventually bring our civilization to moldering ruin."

I believe that Gardner's admonition applies forcefully to the circumstances of the nonprofit sector at the present time, and that the sector should respond to the crisis it is facing by using it as an occasion, and an opportunity, for renewal, for rethinking its role and operations, for re-examining its own mythology in the light of contemporary realities, and for achieving a new consensus, a new settlement, regarding the functions of nonprofit organizations, the relationships they have with citizens, with government, and with business, and the way they will operate in the years ahead.

This does not mean that the sector should give up on resistance, where that is appropriate. But resistance by itself will not work unless it is

accompanied by a serious effort at revitalization, recommitment, and, where necessary, reinvention.

For a sector that prides itself on innovation, responsiveness, and flexibility, a call for renewal may seem inappropriate and unnecessary.

But I am convinced that the current political challenge to the nonprofit sector is evidence that the sector has lost rapport with its constituency, that it has grown a bit too self-satisfied, that in its eagerness to challenge others it has neglected to challenge itself.

What does a strategy of renewal really mean, however? **Essentially, I have a 5-point program in mind.**

(1) Values

First and foremost, renewal requires a reexamination of basic values and beliefs. As Gardner puts it:

"Anyone concerned about the continuous renewal of society must be concerned for the renewal of that society's values and beliefs. Societies are renewed--if they are renewed at all--by people who believe in something, care about something, stand for something."⁶

The evolution of the nonprofit sector in this country has clearly leaped beyond what our existing concepts and values are able to accommodate very easily.

- o Traditional concepts of charity and altruism, of care for the less fortunate, now sit uneasily with the reality of large-scale charitable enterprises headed by well-paid professionals and providing assistance to far more than those in greatest financial need;
- o The religious taproots of the charitable sector, with their emphasis on sacrifice and duty, must now make room for new impulses stressing empowerment, self-realization, self-help, and even self-interest.
- o A sector whose mythology celebrates independence must now come to terms with the need for close working relationships with business and government to solve pressing public problems;
- o Traditional notions of arms-length philanthropy, alms-giving, and service as the principal vehicles of nonprofit action must now come to terms with new demands for citizen involvement, for active engagement in societal problem-solving, and even for direct means

for deciding which public goods are worthy of support. This may require not only new ways of thinking, but also new legal structures. For example, the existing restrictions on the advocacy activity of nonprofit organizations, far from being tightened, as is now being proposed in the U.S. Congress, may need to be significantly relaxed to allow nonprofit organizations to respond to the new citizen demands for involvement that now exist, and that *should* exist in a robust democracy.

(2) Commission on the Third Sector

More concretely, to explore these crucial issues, I believe it is time to convene a high-level Commission on the Third Sector to examine the health-- both fiscal and moral-- of the American nonprofit sector--including service and advocacy, as well as funding, agencies-- to rethink the role, function, and operation of the nonprofit sector for the next century.

What I have in mind is not simply a revival of the Filer Commission, though it might usefully borrow from that very effective episode. The goal, however, should not be simply to promote philanthropy. The nonprofit sector is

not, after all, simply about philanthropy. It is about power and participation. It is about engagement in the task of bettering human life.

The goal of this Commission, therefore, should be to determine how to create an effective "civil society," how to promote what a recent British report terms "the other invisible hand," i.e. "the invisible hand of generosity, help and moral commitment that sustains a sense of community and mutual responsibility,"⁷ how to re-create a civic tradition of engagement.

This should not only be done at the national level, moreover. Similar Commissions could usefully be convened at the local level as well.

(3) Civil Society Summit

Building on the work of the Commission on the Third Sector, I propose that a **Civil Society Summit** be called by the President and Congress for January 1997. This will be a gathering of government, business, and nonprofit sector leaders to explore how to promote more effective collaboration among the sectors to cope with our serious national problems, to make good on the challenge that President Clinton issued in his recent State of the Union speech in which he called on "our new, smaller government" to work "in an old American way--together with all our citizens, through state and local

governments, in the workplace, [and] in religious, charitable, and civic associations."

The central objective of this Summit will be to find ways to strengthen the civic infrastructure of our nation, which has been frayed by the political and social hostilities of the past year. In the process, it will underline the importance of collaboration among sectors to solve our nation's problems and thus get beyond the rhetoric of conflict that has soured our public life of late.

(4) Public Education

Concurrent with the effort to clarify the value base of the nonprofit sector and the role the sector will play in the future, a significant media campaign should be launched to reconnect the nonprofit sector with its citizen base and to educate the public about the role that nonprofit organizations play in the way we actually address public problems in this country.

This should not be a media campaign that deals in mythology, however. It should not portray the nonprofit sector operating in splendid isolation to solve our nation's problems. That is no longer the reality of modern social problem-solving, if it ever was. **What should be emphasized instead is the modern reality of *nonprofit organizations working collaboratively with government***

and the business sector to respond to societal needs. This may be a complex message, but it is the reality that now prevails. Yet it is a reality whose image has unfortunately been lacking in the public mind. The collaborative relationships that have become the heart of modern nonprofit operations in this country and increasingly around the world are nowhere explained to the average citizen, making them vulnerable to the kind of attack they have recently sustained.

(5) New Forms of Public Engagement

As part of the general effort to rethink the role and operation of the nonprofit sector, serious attention also needs to be given to a number of more concrete steps that can connect citizens to the nonprofit sector and to each other, and bring the sector more in line with its fundamental values. Among the concrete steps that probably merit serious review are these:

- (I) A Charity Tax Credit--i.e. a provision allowing taxpayers to donate a portion of their tax liability to eligible anti-poverty agencies, as proposed in The Project for American Renewal spearheaded by William Bennett and Sen. Coats of Indiana, though**

I would add a sliding matching requirement to ensure that extra resources were added to the pool;

- (ii) **A Charity Bank**--and other forms of credit arrangements to provide risk capital to nonprofit agencies and a way for these agencies to remain on the cutting edge of technology;
- (iii) **Deregulating Charitable Advocacy**--eliminating the restrictions on the free speech of nonprofit organizations in order to facilitate their active engagement in policy discourse. No sensible government--certainly no sensible democratic government--can afford to squelch the expression of its citizens organized peaceably in groups to pursue valid public purposes. Not only the proposed Istook Amendment, but the existing limitations on nonprofit advocacy as well are a travesty and should be removed.
- (iv) **A Charity Credit Card**--to facilitate contributions to the public good just the way commercial credit cards facilitate contributions to the private good of purchasers.
- (v) **A "Builders of Community" Designation for Individuals and Firms**--to encourage responsible engagement in civic life not

simply through charitable contributions, but through direct involvement.

(vi) Increased Use of Matching Grants by Government--to tie public funding more directly to citizen desires and provide incentives for nonprofit organizations to preserve their volunteer and charitable bases of support.

(vii) Reexamination of the tax exemption system--to determine if some part of the exemption should be based on the nature of the *activities* undertaken, rather than the nature of the *organization*.

This would essentially extend the concept of the Unrelated Business Income Tax to a larger portion of nonprofit operations, requiring nonprofits to pay taxes on that portion of their activities that is not clearly related to the pursuit of public purposes broadly conceived.

IV. IMPLICATIONS FOR FOUNDATIONS

What does any of this have to do with foundations, and family foundations in particular?

The answer, I believe is: A GREAT DEAL.

I believe that grantmakers have a tremendous stake not only in the future of philanthropy, but in the viability and durability of the nonprofit sector generally.

The nonprofit sector is the fundamental delivery mechanism for foundations. Without this sector, grantmakers simply can't carry out their functions.

What is more, as grantmakers you are in a privileged position. While you obviously have to be careful not to push this too far, the fact is that you enjoy far more security from the pressures of the bottom line than almost any other institution. You can therefore afford to take some risks--not only in your grantmaking, but more generally in the defense of important social values and important social institutions.

I believe you should take advantage of this unique position to assume a leadership position in local communities to defend the idea of nonprofit action and to promote the renewal of our nation's civic infrastructure.

This can take many different forms:

- (1) Convening local Civil Society Commissions to review the state of the nonprofit sector and develop policies for its future;
- (2) Educational efforts to inform policymakers and the public at large about this sector and the role it plays, and about the important partnerships that exist between it and government;
- (3) Research to undergird this educational work and to document the scope, scale, character, and situation of the nonprofit sector in local areas;
- (4) Funding of nonprofit advocacy at the local level to ensure that the new devolution does not lead to the emasculation of protections that nonprofits have fought for decades to establish nationally;
- (5) Support for nonprofit sector **infrastructure institutions**; and
- (6) Greater forcefulness and visibility in defending the nonprofit sector as a crucial part of the civic infrastructure of a community.

CONCLUSION

In his brilliant essay on *Self-Renewal*, John Gardner points out that:

"The nurturing of values that maintain a society's moral tone--or allow that moral tone to slacken--is going on every day, for good or ill. It is not the dull exercise in ancestral piety that some adults make it seem....

"Men and women who understand this truth and accept its implications will be well fitted to renew the moral order--and to renew their society as well. They will understand that the tasks of renewal are endless. They will understand that their society is not like a machine that is created at some point in time and then maintained with a minimum of effort; a society is being continuously re-created, for good or ill, by its members. This will strike some as a burdensome responsibility, but it will summon others to greatness."⁸

The current crisis facing the American nonprofit sector is such a summons. But I have great confidence that the foundation community--and the new "affinity group" Funders Concerned about the Nonprofit Sector that you will start at this meeting-- will have the kind of men and women John Gardner had in mind to lead the response.

1. Lester M. Salamon, "The Rise of the Nonprofit Sector," *Foreign Affairs*, Vol. 74, No. 4 (July/August 1994), pp. 109-122..
2. Data on popular confidence in nonprofit organizations exclusive of education and religion, and in small business and the military from: Virginia Hodgkinson and Murray Weizman, *Giving and Volunteering in the United States*, 1994 edition. (Washington: Independent Sector, 1994. Data on popular confidence in state and federal governments for 1995 and 1975 from: Hart/Teeter, "A National Public Opinion Survey Conducted for the Council for Excellence in Government," March 1995, p. 4.
3. Stephen Rose and David Fasenfest, "Family Incomes in the 1980s: New Pressures on Wives, Husbands, and Young Adults," (Washington, D.C.: Economic Policy Institute, November 1988), p. 10.
4. Washington Post (October 23, 1995).
5. Katharine Q. Seelye, "Democrats Fleeing to G.O.P. Remake Political Landscape," Washington Post (October 8, 1995), p. 1.
6. John Gardner, *Self-Renewal: The Individual and the Innovative Society*, Revised edition. (New York: W. W. Norton & Co., 1981), p. 115.
7. Geoff Mulgan and Charles Landry, *The Other Invisible Hand: Remaking Charity for the 21st Century*. (London: Demos, 1995), p. 8.
8. Gardner, *Self-Renewal*, p. 127.