

THE WONDERFUL WORLD OF CHARITY

By Samuel L. Blumenfeld

Laissez-faire -- or a reasonable facsimile thereof -- is alive and well in the wonderful world of nonprofit organizations -- better known in America as philanthropy. Anyone can start a charity around some worthy medical, educational or cultural cause, get a mailing list, send out a quarter of a million letters pleading for money, and then wait for the checks to roll in. This is one of the great freedoms Americans can still joyfully exercise, a freedom that some people would like to curtail.

And that's why your mailbox on some days is literally crammed with letters from such organizations as the American Civil Liberties Union Foundation, the Sierra Club, American Leprosy Missions, The Salvation Army, the Cousteau Society, Planned Parenthood, the Epilepsy Foundation of America, Alternatives to Abortion International,

Animal Protection Institute of America, Sacred Heart Auto League, Leukemia Society of America, etc.

Would you believe that the cumulative list of tax-exempt organizations compiled by the Internal Revenue Service has over 250,000 entries? And that doesn't tell the whole story, for under one umbrella organization may be hundreds of branches or chapters that are just as tax exempt as the parent group. Would you believe that Americans give to charity at a rate of over \$100 million a day? Would you believe that America's total giving -- \$47.74 billion in 1980 -- is more than the national budgets of all but nine of the 160 nations listed in the World Almanac? (Brazil's national budget in 1979 was \$18.83; Canada's, \$44.75 billion.)

The simple truth is that Americans are the most generous people on earth. They give about \$180 per capita each year to charity, whereas Canadians give only about \$35, and Englishmen a mere \$20. Large-scale philanthropy is a peculiarly American phenomenon for a number of very good reasons: (1) Americans in general rely less on government to get things done than do people in other nations; (2) Americans, because of their wealth, are grateful for their good fortune and are thus easily persuaded by religious conviction or a sense of altruism to help the less fortunate and contribute to worthy causes; (3) the tax-exempt status of the nonprofit organization has made it economically attractive to conduct certain medical, cultural, educational and scientific enterprises in the nonprofit format; (4) fund-raising has been developed into a very highly skilled profession, with the result that more people are being persuaded to give to more causes than ever before.

Contrary to the popular belief that foundations are the big givers in America, the fact is that individuals contribute over 80 percent of the total given to charity. In 1980 that came to \$39.93 billion. And that is why direct-mail solicitations have become the favorite way to reach potential donors. They go to individuals in their homes where the letters can be read in an easy chair in close proximity to a personal checkbook. The appeal letter, skillfully written by a well-paid professional, is intended to enlist the reader's interest and sympathy to the extent that he or she will write out a check immediately, slip it in the prepaid reply envelope, and mail it in the morning. An appeal letter that is set aside for future answering seldom gets answered because the appeals that arrive in the next day's mail may command greater interest and sympathy.

Although begging for alms is probably as old as the human race, soliciting contributions by mail is a relatively new phenomenon which, in the computer age, has become a highly sophisticated business. Legend has it that direct-mail fund-raising was started in Italy in 1835 by Saint Vincent Pallotti, an advisor to the Pope, who sent letters to potential donors appealing for money to support his works of mercy. Undoubtedly Father Pallotti wrote some very persuasive letters, for he opened a whole new world of charitable enterprise.

Today some direct-mail specialists charge as much as \$5,000 to write a good, hard-hitting letter for a client -- who might be a magazine publisher, a sales house, or a charity. In 1978 about 34 billion form letters were sent through the mail by businesses and

organizations trying to drum up mail-order response. Their success accounted for about 12 percent of all retail sales, adding up to \$83 billion in gross revenues. That's a lot of business.

But it all starts with a mailing list. You just don't send out letters to everyone in the phone book. You try to get a list of people most likely to respond to your appeal. Richard Viguerie, the direct-mail king for conservative causes, built his thriving empire on a list of contributors to the Goldwater campaign of 1964. Having those names and addresses was literally like having money in the bank. These were people interested in any number of conservative causes. The result was the birth of numerous single issue organizations that began laying the groundwork for a conservative comeback.

Likewise, in 1972 the liberals put together their own mailing list from contributors to the McGovern campaign. This list, compiled by direct-mail specialist Morris Dees, had a half million names to begin with. If you were on this list, you no doubt have received since then several hundreds of solicitations from liberal causes. And, of course, organizations will exchange or buy lists to expand their reach. One contributor who gave \$15 to the Kent State Fund soon began receiving solicitations from the followers of Karen Silkwood, the Union of Concerned Scientists (nuclear power) and the Greenpeace Foundation (baby seals). There is a very lively traffic in lists, with brokers offering whole catalogues of specialized

lists for rent -- doctors, lawyers, teachers, salesmen, home-owners, boat-owners, farmers, pilots, ministers, etc. Some lists are computer-coded so that they can be broken down by sex, level of donation, ethnic derivation of surname, and zip code, which makes it pretty easy for an organization or business to direct its campaign to a very specific group of people.

Renting a list is not cheap. The cost will run between \$15 and \$60 per thousand names. But that's only the beginning. There's also postage, paper, and printing to pay for -- not to mention the overhead of an office. On the average, the overall cost for a mailing of 100,000 pieces is about \$20,000, or 20 cents apiece. A response of 2 percent is considered highly successful. If those 2,000 respondees contribute an average of about \$15 each, your income will be about \$30,000, leaving your organization about \$10,000 to spend on the cause.

Actually, in its first year no new charity is expected to raise much more money than is needed to simply get it off the ground. The payoff comes after the first year when contributors renew their donations and the organization develops a loyal following of interested people and a specialized mailing list of its own.

Because there is now so much competition in direct-mail solicitations, fund-raisers are using all sorts of gimmicks to get people to respond. Public affairs groups may enclose opinion polls or postage stamps. Religious charities often enclose plastic key chains and medallions. Health agencies tend to favor seals. Other gimmicks include sweepstake tickets, greeting cards, ball-point pens, return address labels, and bright new pennies. The hope is that these "gifts" will induce the receiver to send some money

back in the return envelope. The gimmicks often work, for no one likes to feel that he or she is taking something for nothing, particularly from a charity. Naturally all of this gimmickry increases the cost of fund-raising.

There is a great deal of debate over what constitutes fair operating costs for a charitable organization. Some charities are accused of spending too much money on raising money and not enough on the charity itself. That was the case with the Sister Kenny Foundation which in the years 1952-9 collected \$30,674,000 from the public to help rehabilitate victims of infantile paralysis. Of that money, 53%, or \$16,260,000, went for "overhead" and fund-raising costs. Thus, less than half the money collected was actually used for therapeutic purposes.

Was this a result of fraud, greed, or plain poor management? In this case it turned out to be a matter of greed, and the promoters involved -- one of whom was a well-known operator in the charity business -- were found guilty of mail fraud and conspiracy and were sent to jail.

But the truth of the matter is that charitable organizations, subject to the strong pressures of a highly competitive marketplace, have become more and more like businesses, plagued with the same economic problems, expected to perform with the same efficiency. Yet, as we all know, businesses can fail. They can lose money as well as make it, and the same holds true for the charitable organization. One ought not to automatically suspect fraud if a charity can't quite make it.

In a field of activity as large, diverse, and open as fund-raising there are bound to be some sharp operators and some shady dealings and practices. However, most of the people who start charitable organizations are motivated by the desire to serve some worthy causes. The hired help, however, may not be so altruistically motivated. The professionals who run the biggest charities are paid salaries comparable to their peers in government and industry. For example, five officers of Disabled American Veterans are paid about \$49,000 and the top executive officer earns nearly \$63,000. Were these same services performed by a government agency at taxpayer expense the salaries would be the same but the staff would, no doubt, be twice as large.

As for the lower echelon workers, they are no more self-sacrificial than their counterparts in business or government. Some have been known to even strike for higher wages. That was the case in the mid 1970's when 120 staff members of New York's Association for the Help of Retarded Children walked off their jobs and did not return until they had received \$800 in annual increases over their pay which ranged from \$5,100 to \$10,000.

How can you as a consumer know which of the charities are worth contributing to? Most contributors give to causes that interest them. If the cause is a vital one, they rarely worry about how efficient the organization championing it is. But if you do want to find out something about a specific nonprofit organization, there are two information agencies that can help you: the National Information Bureau (419 Park Ave., South, New York, N. Y. 10016) and the

Philanthropic Advisory Service of the Council of Better Business Bureaus (1150 Seventeenth St., N.W., Washington, D.C. 20036). The NIB keeps tabs on the finances and activities of almost 400 national charities. The NIB rates charities according to how well they measure up to the eight standards which the agency feels every well-intentioned, well-run charity should meet:

(1) An active and responsible governing body with effective administrative control, serving without compensation and holding regular meetings.

(2) A legitimate purpose with no avoidable duplication of the work of other sound organizations.

(3) Reasonable management efficiency with adequate material and personnel resources to carry on its stated program together with reasonable administration and fund-raising expense.

(4) Consultation and cooperation with established agencies in the same and related fields.

(5) Ethical methods of publicity, promotion and fund solicitation.

(6) No payment of commissions for fund raising, no mailing of unordered tickets or merchandise with a request for money in return, no general telephone solicitation of the public and no use of identified government employees to solicit the public.

(7) An annual audit employing the Uniform Accounting Standards and prepared by an independent certified public accountant, showing all support/revenue and expenses in reasonable detail. A combined audit of the national office and affiliates is required.

(8) A detailed annual budget consistent with the Uniform Accounting Standards.

The NIB publishes a rating list, updated each month, of some 365 national charities entitled the "Wise Giving Guide," available free on request. In-depth individual reports are also available, with a limit of three per request.

The Council of Better Business Bureaus maintains files on about 7,000 national nonprofit organizations that solicit public support. It publishes a rating list of the 360 or so most active ones. Detailed reports on any charities monitored by CBBB are available on request. The rating list can be had for \$1.

The NIB and the CBBB do not always agree in their evaluations of particular organizations. But both watchdog groups have reservations about the following charities: American Brotherhood for the Blind, AMVETS National Service Foundation, Christian Appalachian Project, Cousteau Society, David Livingstone Missionary Foundation, Disabled American Veterans, Guiding Eyes for the Blind, Help Hospitalized Veterans, Korean Relief, Paralyzed Veterans of America, Salesian Missions, Seeing Eye, Southern Poverty Law Center, Southwest Indian Foundation, and World Changers.

The ratings may not make much sense to those who contribute to organizations because of the causes they espouse rather than because they meet a set of standards devised by some self-appointed watchdogs. For example, I found that several of my favorite organizations did not get the approval of the NIB, while others which I didn't like at all made the approval list. I hate to think that the NIB's rating system is biased. But one thing is certain: you can't base your giving decisions solely on their criteria and findings. All of which

means that even the work of a watchdog agency must be monitored for its own inherent prejudices. There is more to a charity or a non-profit organization than the frequency of its board meetings and the cost of its fund-raising.

There have been attempts in some states to legislate limits on fund-raising costs. In Florida the limit is 25 percent of the funds raised; in Pennsylvania and North Carolina, the limit is 35 percent; and in New York and New Jersey it is 50 percent. Clearly it is impossible to come up with a figure that means anything. It's like trying to legislate limits on how much a businessman may put into a new business before he turns a profit. Start up costs for nonprofit organizations are subject to just about as many variables, predictable and unpredictable, as those for businesses.

All tax-exempt organizations -- except churches -- are required by the IRS to file annual financial reports. These reports really tell us as much as we have to know about how a particular nonprofit organization is handling its money. In addition, these reports are thoroughly analyzed by the NIB and the CBBB. Therefore, if any contributor has doubts or reservations about any charity, he can always get plenty of information about it. Nonprofit organizations will send you their annual reports on request.

But because church-affiliated charities are not required to submit annual financial reports to the IRS -- remember separation of church and state -- it is far more difficult for the contributor to find out how that charity is handling its funds. We assume that the priests, ministers, and rabbis who administer these charities are

kept honest by the higher laws of their respective religions. But even men of the cloth are susceptible to temptation. In fact, a recent scandal involving a well-known Catholic charity reminds us that Original Sin has not gone the way of the Latin mass.

For years the Pallottine Fathers of Baltimore, a venerable Roman Catholic missionary order with 2200 priests and brothers in 23 countries, had been soliciting contributions by mail. In fact, the order was founded in 1835 by Saint Vincent Pallotti, the father of direct-mail fund-raising. From that modest beginning grew a mammoth direct-mail charity which is now run from a warehouse in Baltimore with computerized mailing lists, automatic typewriters and high-speed envelope stuffers.

From June 1974 through December 1975 the order sent out 150 million appeals, some of which contained ball-point pens, calendars, prayer cards, and sweepstakes tickets. The response during that period added up to \$20 million of which less than 3 percent ever reached the charitable missions. The bulk was used to pay for the mailings, including a postage bill of \$2 million a year.

This alone was dismal enough, but when a federal probe into a Maryland bank revealed that the Pallottine Fathers had loaned the bank \$87,000, the state attorney general began an investigation that finally led to the indictment and conviction in 1978 of the charity's fund-raising director, the Very Rev. Guido John Carcich.

It turned out that millions of the charity's funds had been invested in real estate and business ventures, including a portable classroom manufacturing company owned by the nephew of the Pallottine

Fathers' accountant. An investigation into that company resulted in the indictment of Maryland's school construction chief. Another Pallottine loan of \$54,000 helped pay for Maryland Governor Marvin Mandel's 1974 divorce; and \$52,000 was used for the purchase of a house for Father Carcich's niece.

When all the facts were finally known, Father Carcich pleaded guilty to diverting \$2.2 million of the charity's funds into 28 secret bank accounts. Under a plea-bargaining arrangement, Father Carcich was placed on probation for 18 months and ordered to work for one year in the Maryland penal system "ministering to the needs of prisoners." Meanwhile, the order was stripped of its fiscal autonomy by senior officials of the Catholic Church who also imposed a moratorium on future Pallottine financial dealings pending a review of its fund-raising methods and philosophy.

It would be wrong to conclude from the Pallottine case that the charity world is riddled with crooks and charlatans. There is about as much fraud in the nonprofit sector as one is likely to find in government or business, perhaps even less these days because of the inordinate publicity charity frauds get. Carl Bakal, author of Charity USA, states that from \$500 million to \$1.5 billion is estimated to wind up with charity charlatans. That's about 2 percent of the total \$47.74 billion contributed to all charitable organizations. One can philosophize that it's part of the cost we must bear if we are to enjoy the freedom to organize and raise money for any cause that grabs hold of us.

Some social critics have suggested that we create a federal

agency to regulate and police charitable organizations. But instantly you would have to exclude religious organizations from such government regulation because of our long-standing tradition of separation of church and state. In 1980 religion received \$22.15 billion in contributions, or 46.3 percent of all charitable giving. Thus, almost half of all charitable activity would be exempt from government surveillance.

On the other hand, government regulation would merely create another expensive federal bureaucracy which would generate tons of needless paperwork and red tape. It would place a damper on nonprofit entrepreneurship, it would inhibit the starting of new organizations and solidify the dominance of the establishment charities. Federal regulations would increase the cost of fund-raising without improving the quality of services rendered. They might reduce the chance of fraud, but they would not solve the problems of human error and mismanagement. But worst of all, they might also kill the vitality of the nonprofit sector which depends so heavily on personal motivation and the freedom to act forcefully in its behalf. Bureaucracy is no substitute for individual initiative and dedication.

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Meanwhile, fund-raisers are worried about the future. They don't know if Reagan's new tax policies will help or hurt charitable giving. But one thing is certain: people will continue to give as long as there are good causes to support and enough persuasive fund-raisers to do the asking. One 27-year-old sheet metal worker who pledged \$20 to a policeman's benefit association in response to a phone solicitation summed up the feelings of a lot of contributors when asked why he gave:

"It's hard for me to say no when someone wants my help . . . when they come right out and ask me. I want people to like me. I feel that I have failed or fallen short in some way when I refuse to help people. I'd rather pay the \$20 than feel bad about it for several days because I didn't pay it. Twenty dollars isn't very much . . . I can handle that much."

But not every donor is a soft touch. Here's what a 50-year-old sports store owner replied when asked by Paul Schreiber, author of The Art of Asking, why he gave a motor boat and three canoes worth

\$6,500 to a parochial high school: "I'm basically stingy about donating, except where the church is concerned. I believe in their programs. . . Another reason I gave is because I would rather control where my money goes than simply turn it over to the Internal Revenue Service."

But perhaps the 52-year-old owner of a grocery store who gave \$2,500 to a boys' club hit the nail on the head when he said: "When the boys' club president and two of the boys visited me and asked for the money, I just didn't want to refuse. . . . They made me feel important, and I just couldn't let them down. . . . You know, after you make some big purchase you feel blue about it for days afterward, wondering if you did the right thing. But after I gave that \$2,500, it wasn't that way. It was just a great feeling, and the feeling comes back every time I think about it."

For many Americans, giving to charity is a sure way to experience that great feeling -- whether it be in giving fifty cents to a down-and-outer, \$100 to a Jerry Lewis telethon for Muscular Distrophy, or \$105 million to a university. Yes, that much money, in Coca Cola stock, was given to Emory University in 1980 by the Emily & Ernest Woodruff Fund, the largest single gift in the history of philanthropy. It is assumed that great feelings -- in some cases approaching delirium -- was had by all. Of such stuff are the dreams of fund-raisers made.