

*Uncharitable: How Restraints on Nonprofits Undermine Their Potential*

by Dan Pallotta

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IN RECENT YEARS, THERE HAS BEEN INCREASING DISCUSSION ABOUT THE “blurring” of the lines that separate the charitable sector from the private sector. To many people, the argument goes, the concept of “charity” is no longer relevant or compelling. There are calls for increased innovation, risk-taking, new forms of financing, and the adoption of mores and techniques more usual in the private sector.

Dan Pallotta would lead this parade. His 312-page opus argues that most of the “accepted” values of the charitable sector serve only to prevent the very goals the sector says it wishes to achieve. He argues that the espoused values date from Puritan days and are based on misguided notions of the nature of man.

In supporting his argument that capitalism has a place in the provision of public benefit services delivered by charities, he offers this series of paradoxes:

*Sony can make a profit from a Bruce Springsteen album that heightens awareness of the plight of migrant workers, but no one can earn a profit working for a charity trying to help the migrant workers of whose plight we want people to be more aware. Profit is eschewed as an incentive in charity, but charities invest the retirement funds of their employees in the stocks of for-profit companies in order to produce economic incentives. No one can earn a profit investing in a charity soup kitchen, but Campbell’s can make a profit selling the charity its soup. A supermarket can make a profit selling food to the poor, but a poverty charity cannot use profit to attract people to help end poverty. Foundations must be nonprofit, yet they generate the money they give to charity by investing their endowments in the stocks of for-profit companies.*

Pallotta unabashedly boasts of the work of his company in raising funds for research into AIDS and breast cancer. He argues that his company’s adoption of the best of private-sector techniques raised more money more quickly for these causes than any known private event operation in history.

He is clear in his view that restraints on charities – whether legislative or ethical in nature – serve as barriers to the effectiveness of the charities. He focuses on five “errors”

that, he argues, stand in the way of achieving the great visions of those committed to serving others.

His section on compensation is particularly relevant to Canadian charities as Parliament considers legislation that would cap salaries of those working for charities. By way of example, he compares the salaries of the top highest-paid CEOs of for-profit health insurance companies with those of the five highest-paid CEOs of health charities.

*The top five CEOs in for-profit health insurance made approximately 74 times what the top CEOs in America's health charities made. It is an upside-down world that prioritizes the affordability of disease this high above its eradication.*

In similar fashion, he decries social mores that, he says:

- punish courage and rewards timidity by punishing risk-taking behaviour by charities;
- discourage long-term visions by demanding that all donated funds immediately be used to deal with current needs, rather than seeking to look for longer-term solutions;
- essentially prevent charities from engaging in the type of advertising that, in his view, would create greater awareness of the sector and attract more dollars to their causes; and
- prohibit the use of free-market techniques (including investment returns) to attract necessary capital to the sector.

All of these, he describes as fundamental errors of the nonprofit ideology. (He hastens to point out that it is not necessarily the ideology of nonprofits, but rather the ideology that surrounds nonprofits.) They all flow, he suggests, from Puritan doctrine that self-interest is sinful.

*While the rest of the economic universe has moved on from the Puritan vision, nonprofit ideology has constructed an imaginary world for its protection.*

Another section of the book, aptly entitled “Stop Asking This Question,” bemoans the emphasis on measures that (inappropriately, in his view) seek to demonstrate the effectiveness of charities.

Pallotta's enthusiastic adoption of all things free enterprise and his belief in the benefits of their immediate and complete application to the work of charities will leave some people uncomfortable. Not all will agree with all of his proposed solutions; some will find them distasteful in the extreme. But the book's main benefit – regardless of a person's viewpoint – is that it lays out squarely the debate that must be had – in the sector and beyond. For this alone, the book should be on the reading list of many charity CEOs and Boards. The issue has been joined: let the debate begin. Where the debate ends up is anyone's guess, but we will be the stronger for having had it.