

Bookshelf

Philanthropy in an Age of Transition: The Essays of Allan Pifer

Published by the Foundation Center, 888 Seventh Avenue, New York, N.Y. 10106, 1984, pp. 239, \$12.50 (US)

Why Charity? The Case for a Third Sector

By James Douglas

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Most people involved in the work of charities would benefit occasionally from taking the time to stand back and consider their activities in a broader context. The two books reviewed here provide very different perspectives on charitable activities, but both stimulate and reward the interested reader.

Alan Pifer's years with the Carnegie Corporation, nearly 20 as president, gave him an ideal opportunity to reflect on the needs of society and the role of the charity in responding to them. We profit from his opportunity in *Philanthropy in an Age of Transition*, a collection of essays that originally appeared as presidential messages in the annual reports of the Corporation from 1966 to 1982. Rather than restrict his comments to the administration of his own organization, Pifer took a broader view. He directed his attention to questions of general interest, and they remain of interest today.

Pifer writes on the nature of a charitable foundation, and on the relations between the functions of the foundation and those of government. He fervently supports the actions of private sector non-profit organizations as essential to a decent and stable society.

Foundations have, he says, to engage in matters of public policy, though he distinguishes between "the legitimate application of (generally shared) values and non-legitimate partisanship on behalf of a cause." Drawing this line in practice challenges the best judgment of foundation management. Foundations can strengthen their chances of being on the right side of it by solid research into what they support, openness to public explanation of their choices, and diversification of viewpoints among both trustees and staff. Pifer's conclusions are cautious, possibly because he recognizes that the public may tend to hold foundations responsible for the results and not just

the intentions of their grants. However, the alternative to involvement is, in Pifer's view, irrelevance.

Pifer's opinions on the role of charities in the support of public good lead him to defend strongly the tax deduction for charitable gifts. The deduction is not some kind of "gift" from the government to the taxpayer for doing good. Such a theory would imply that the government has a right to *all* of our income and that whatever we have left over after taxes, we have only by the government's grace. On the contrary, says Pifer, our donations to charity support the public good just as does government spending. In giving privately, we make a private allocation of resources for the public benefit. The tax deduction recognizes this allocation by not taxing it as if it were an expenditure for personal use. Whether this reasoning can justify a tax credit rather than simply a deduction, Pifer does not say.

In the mid-1970s, Pifer focused his sights on many of the most pressing social concerns facing the United States: youth unemployment, racial inequality, higher education, and the role of women in the economy. Standing outside government, he can judge government programs impartially—and finds some often unimaginative and shortsighted. Pifer derives his passion for equal opportunity, and for public and private programs to create it where it has not existed, both from his own moral imperatives and from his prediction that the long-term survival of American society will depend on the contribution of all of its citizens.

This combination of the passionate with the pragmatic makes Pifer's essays a pleasure to read. One comes to trust his humane and informed intelligence as a guide through the maze of problems he addresses. While he has no more magic solutions than anyone else, Pifer does inspire confidence that goodwill and reason can make a difference.

While Pifer deals in the practical side of the principles of charity, James Douglas explores the pure theory. Now a professor of political science at Northwestern University, Douglas was once director of policy and research for Britain's Conservative party. In *Why Charity?*, he attempts by economic and political analysis to show what needs charity meets and why those needs cannot be met otherwise.

Douglas first asks why the free market cannot provide the services that charities offer. The economic discussion on this point will not surprise anyone familiar with the discipline over the past 20 years, although its specific application to the non-profit sector is less common. For readers not used to the concepts, Douglas' discussion will serve as a stimulating introduction. He explains the notion of "public goods" in which everyone has an interest but not sufficient interest to pay enough to cause an entrepreneur to provide them for everyone. Education is a common example. Provision of "goods" available to all creates "free riders", who benefit from the efforts of others without having to contribute personally. The nature of these phenomena often justifies the provision of

such “goods” (which include services) by government, which can ensure a common contribution through taxation.

Douglas explores many aspects of “market failure”, i.e., the inability of the free enterprise system to provide all the services that people want or need. He hopes to find a reason in principle why some services must be provided by non-profit organizations. He explores a number of theories on the point. One of the more interesting he calls “the question of trust”. Some writers suggest that a non-profit enterprise will be especially appropriate where consumers of the service cannot easily judge its quality, or where the cost of delay in ascertaining poor quality is high (such as in day care, where the child could be harmed by staying too long in inadequate facilities). By removing the profit motive, one may minimize the incentive to reduce the quality of the service. The level of trust in the quality may then rise. The author also refers to blood collection services. Where these services do not seek a profit, fewer cases of contaminated blood arise, because donors have no incentive to lie so as to give blood when they should not.

However, to some extent quality can be controlled by government regulation, so business enterprises must provide acceptable service. Institutional defects may distort the quality of service even in a non-profit organization, whether through administrative inefficiency or personal rather than financial selfishness. Douglas concludes that the need for trust is not necessary or sufficient for non-profit status, although that status will work efficiently in some cases. A search for a general theory of charity does not end there.

Fortunately the author does not fall into the trap of thinking that everything can be explained by economic analysis, even market failure. Economic analysis rests on the supposed existence of transactions. Where no transactions are even possible, speculation on what costs are “implied” by their absence simply redescribes known situations in technical language. One concludes that the technique cannot predict social results not known in advance and therefore has little use as a science in this domain.

If the market cannot meet all demands on it, can one safely turn to politics to fill the gaps? Clearly some needs find their satisfaction in the public sector, but equally clearly some still do not. Douglas’ analysis of “political failure” owes much to the “pluralistic democracy” of Robert Dahl. While government can satisfy many widely shared demands for goods and services, it cannot provide for narrowly shared demands. Our political system depends on shifting coalitions of interests combining with each other to provide for each other’s demands (less fluidly in the Canadian party system than in the United States), but some interests cannot combine, or can never attract enough support for government to provide the kind or amount of services desired.

More important, people have different views on what society should provide, and not merely different quantities of demand for the same type of “good”. While the economic market can aggregate individual choices to provide

products, politics cannot aggregate social choices in the same way. A collection of individual choices about what is good does not produce what all agree is a public "good". As Douglas says, "there is no single social welfare function that is necessarily preferable to any other social welfare function."

Charities fit into this situation by providing what government will not provide. They increase the available range of public "goods" by reflecting the wants of groups with stronger desires for those "goods" than the general populace has. This can occur if the majority does not consider the goals of the charities so bad as to prohibit them by law and if the majority is prepared to consider the minority's activity as a benefit to the public in some sense.

"The spirit of liberty," said the noted American jurist, Learned Hand, "is the spirit which is not too sure it is right." If this spirit prevails among the majority, charities can function. For this reason Douglas says that the extent to which, in any society, third sector organizations are free and healthy is a good measure of how far that society can be called "free".

Though this essay aims at theoretical understanding and will serve as a useful introduction to major currents of political and economic analysis, it has practical impact as well. Douglas takes the view, for example, that because a charity is providing what a non-governmental minority wants (at least in the degree to which the charity provides it), the board of directors of the charity should not attempt to represent society as a whole. Government, not the third sector organizations, is representative. Charities are specialized. One may contrast this view with Pifer's warning that both trustees and staff of foundations, if not of operating charities as well, should be broader than the white male elite that has controlled much of the political agenda in our society.

Douglas argues on theoretical grounds that charities should not be expected to take over functions of government, such as welfare programs or supporting the arts. The political theory of pluralism can explain the trend to relying on private action to further social ends. A strong minority preference for government action can function in a pluralistic society if the majority's contrary view on social goals is weak. When that contrary view strengthens, then government programs supported by a minority will cease, and the minority will be left to its own resources. However, Douglas thinks governments are going too far in handing over programs that do operate for the general good, which are often efficient and not available from the market economy. Even if third sector organizations can perform these functions, doing so exhausts their resources to do what only such organizations can do well: provide flexible and experimental programs for smaller groups than government can serve. In any event the third sector is simply not large enough to take over all the government programs that might be abandoned to it.

Here Douglas joins Pifer, who argues eloquently for a longer-term vision of the social costs of government priorities that favour military expansion over justice or education. Douglas also notes that democratic governments often

have a shorter-term vision than third sector organizations, especially those whose funds are assured for more than the current year. It is no part of Douglas' conclusion that market or government "failures" reduce the importance of their functions. It is simply that charities have a role as well that is not only practically useful but, in principle, essential to our society. Pifer would clearly agree.