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METAMORPHOSIS

Federal Support for Voluntary Organizations

by

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In the mid-seventies, the Filer Commission on Private Philanthropy and Public Needs uncovered some facts about the relationship between the federal government and private voluntary organizations that surprised most people and alarmed some. One fact was that the federal government's support of voluntary organizations totalled \$23.2 billion in 1974, nearly \$10 billion more than the total given that year by private philanthropy to all areas except religion. A second fact was that government support accounted for more than a third of all revenue received by voluntary organizations.

These statistics confirmed a trend many had been noticing for years: the increasing role of the federal government in the activities of voluntary organizations.

The relationship between government and the voluntary sector is certainly not new, extending well back into the last century. And, as Robert Bremmer states in his Filer Commission study of the history of philanthropy, that relationship has usually not been an adversarial one: "Through the greater part of American history, government and voluntary forces have cooperated and collaborated in meeting public needs."

But the rapid expansion of government support for nonprofits during the past few decades, and, possibly, the rapid contraction of support during the next decade, raises a number of important, provocative questions:

- * Is the federal government in a sense taking over the private, voluntary sector?
- * Does the government exert too much control over the activities of voluntary organizations?
- * Is so much government support changing the roles of voluntary organizations, perhaps diverting them from their advocacy role into more of a service role?
- * Is all of that money being used effectively by voluntary organizations?
- * Is much of it going into the kinds of organizations that exemplify what "voluntary action" is supposed to be about?

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- * Is the government superceding voluntary organizations as a source of innovation and a force for social change?
- * If so, is that because the government wishes to take over all the functions of the voluntary sector or because the voluntary sector has been defaulting in fulfilling some of its functions?

This impressionistic paper will quickly review the myriad ways the government supports various types of voluntary organizations (defined broadly), discuss the many problems associated with this support (it will suggest that the most important problems are not the ones most people talk about) and then offer some concluding thoughts.

TYPES OF GOVERNMENT SUPPORT

Grants and Contracts: The largest amount of federal support for voluntary organizations comes through grants and contracts, most of which are for providing health or welfare services (i.e., the Title XX Social Services program), conducting research or educating people. The Catalog of Federal Domestic Assistance lists hundreds of programs for which "nonprofit organizations and institutions" are eligible.

Indirect Support: The federal government supports nonprofit organizations in a number of other less direct ways. A critical source of support -- particularly for voluntary organizations that rely on direct mail to raise money -- is the large discount for sending bulk mail and periodicals by nonprofits. In 1977, this "discount" cost the government \$473 million. Gradually however, most of this subsidy is being phased out.

A similar form of federal support for nonprofits involves exemptions from federal taxes on things like telephone usage and aircraft fuel(!).

A far more significant form of assistance involves 'subsidies' for those using the services of nonprofits, such as federal student aid and Medicare. Related to this, the federal food and stamp program has helped a few community organizations which have contracts to 'sell' the stamps.

"Indirect cost" reimbursement on many federal grants and contracts of another source of support for many nonprofit organizations, especially the larger ones.

A few nonprofits have benefitted from federal funds for the lease or acquisition of public lands for recreation or historic monuments. Others have benefitted from donations of (or enormous discounts on) surplus federal property.

Other government services which have benefitted nonprofits (though they're usually not restricted to nonprofits) involve the dissemination of information through NTIS (National Technical Information Service), government publications and FAPRS (Federal Assistance Program Retrieval System), which is a computerized

source of information about federal assistance programs. Several federal agencies have established clearinghouses for information; one of the most recent (which is specifically for neighborhood-based voluntary organizations) is HUD's NISE (Neighborhood Information Sharing Exchange).

In relation to this, several federal agencies have provided nonprofits with some form of assistance in the grant process, either in applying for funds or in meeting federal requirements in those funds. A few federal agencies -- the Administration for Native Americans is one -- go even further, providing substantial management assistance to voluntary organizations.

Another type of "support" is the Federal Communication Commission's requirement that broadcasters devote at least some time to public affairs. One result of this is the Public Service Announcement, which has given many voluntary organizations some valuable public exposure.

Support Through the Tax System: One of the oldest and most obvious sources of federal support for voluntary organizations is the charitable deduction, which encourages contributions by offering the contributor a tax deduction. This is a major "tax expenditure": in 1979 the amount of taxes foregone by the government because of the deduction totaled \$7.3 billion.

Another major tax benefit is the property tax exemption provided to various types of nonprofits by state and local governments. The Filer Commission said that was worth \$5 billion in 1974.

The federal tax system also supports nonprofits in many other, less widely-known ways. For example, interest income on bonds sold to finance the construction of nonprofit hospitals is tax exempt.

Federal Government's Charity Drive: A direct source of federal support for voluntary organizations is the Combined Federal Campaign, which raises about \$80 million a year for four groups of charities. The money comes from individual federal employees, but a significant amount of governmental resources are committed to raising and distributing the money; the Campaign's staff in the D.C. area, for example, consists of more than 30 federal employees.

PROBLEMS WITH GOVERNMENT SUPPORT OF VOLUNTARY ORGANIZATIONS

A survey done for the Filer Commission found that the foremost concern of leaders of voluntary organizations was "government relations." No doubt the main reason for the prominence of this concern is the prominence of governmental funds in their organizations' budgets and the problems they have in getting and administering those funds. It is that area which most people talk about when addressing "the problems of government funding."

But while the bureaucratic burden of governmental support is certainly an important concern, it is but one facet of a much more significant problem with the government's support of voluntary organizations. What that problem involves is how government funding has fundamentally changed what the voluntary sector is about.

Transforming the Voluntary Sector: One way it has done this is through government grants and contracts, which have turned many voluntary social welfare organizations into almost exclusively service providers rather than advocates for those being "serviced." A 1977 report on voluntary action in Canada explained how this happens: "Community groups appear to lose a great deal of their effectiveness once they become grant recipients. They can become excessively cautious about antagonizing granting agencies and losing future grants. So much time and energy can be spent on administration and accounting for grant money that the commitment of these groups to social action begins to wane."

The cause? The Canadian study suggests it's not "conscious co-optation" by government but that the organization "has placed itself in a position where it must, sometimes unconsciously and gradually, accommodate to changes in order to remain acceptable and keep being funded."

To keep being funded, it must do what the government wants done. This is put very bluntly in a study of federal assistance just completed by the Office of Management and Budget: "The promise of available money is expected to lure recipients into actions they otherwise would not take. . .". The effects of this are a decrease in flexibility, creativity and advocacy; a departure from an organization's motivating sense of purpose; an increase in size and timidity. . . all trends that are antithetical to voluntary action.

Government grants and contracts also affect the nature of the voluntary sector by strongly favoring the largest, oldest and generally most traditional organizations. This happens because most grant decisions are based primarily on a voluntary organization's credibility, which is mostly related to its age, contacts, existing resources and ability to keep its books clean. One source of credibility for many voluntary organizations is their affiliation with the local United Way, and thus billions of dollars of federal support go each year to United Way agencies. The problem with this is that most United Way's let in very few new agencies, almost none of which are at all controversial or advocacy-oriented.

The voluntary sector has also been transformed by indirect government support. For example, grants for hospital construction combined with things like the tax exemption on construction bonds, mortgage insurance, hefty "indirect cost" rates on other grants (which help pay for building maintenance), Medicare of course, and, the property tax exemption, have turned many voluntary organizations into physical institutions. And just as buying a house can sometimes subtly neutralize an individual, "buying" a building can often subtly neutralize a voluntary organization. Columbia University professor Bruce Vladeck calls this the "Oedifice Complex," saying that one effect has often been to lower the quality of service while increasing the cost. Organization theorist C. Northcote Parkinson wrote many years ago that one could identify with precision the point at which an important institution began to slide downhill: when it opened its beautiful new facility.

Other forms of government support have similar effects on the voluntary sector. The charitable deduction, by giving most of the tax incentive for deductions to the very rich, has helped foster support from the wealthy, with many consequences.

One is the development of large institutions in culture, education and health, the three areas favored by the wealthy. Another consequence is to exacerbate the "ultimately paternal" nature of most voluntary organizations (in the words of a Filer Commission study) by making those who benefit from those organizations dependent on the wealthier people who provide most of their support. Finally, the present system for encouraging donations also favors the existing de-facto system of allocating charity dollars, which is based far more on an organization's emotional appeal, public abilities and longevity than it is on any assessment of social needs that approaches being rational.

The government's on-the-job charity drive is one more example of how government support has helped transform the voluntary sector. It channels all of its proceeds only to long-established charities involved in relatively traditional activities.

Taking Over the Voluntary Sector? Another often expressed concern about the relationship between government and the voluntary sector involves the relatively sudden ascension of government funding in many fields that were once the domain of private philanthropy. For example, while private philanthropy once provided most of the funding for science, in 1973 it provided just 2% of the amount the federal government allocated for science.

For many, statistics like this illustrate the government's forceful takeover of areas that have been and should be -- at least to some extent -- the domain of private philanthropy. This takeover is often loudly decried. But this "take-over" argument is simplistic because it ignores the fact that much of the increase in government funding has gone to expand the activities of private voluntary organizations, "simply helping to pay the bills" in the Filer Commission's words.

The important comparison between public and private expenditures concerns support for newly-perceived social problems and for new approaches to confronting old problems. It is here that one steeped in the rhetoric about the innovation and foresight of philanthropy would expect to find private support far exceeding public support. But the few statistics available suggest that this is simply not the case. In funding for women's projects, for instance, a recent Ford Foundation study found that governmental funding for women's organizations exceeds foundation funding (\$35.5 million vs. \$33.5 million for a six-year period during the early 70s). Government funding has also been an important source of support for many other organizations that are a part of relatively new voluntary movements, including environmental organizations, groups concerned with worker safety (through OSHA's New Directions grants), community-based

organizations (through LEAA's community crime prevention program, HUD's Office of Neighborhood Development and the various programs of the Community Service Administration). Also, some public interest organizations have gotten funds allowing them to prepare and deliver testimony to regulatory bodies or Congress.

The total of government support for new voluntary movements is tiny relative to overall federal support for voluntary organizations. But relative to philanthropic support, this funding is quite significant, and it is in this area that one should be concerned about the relationship between private and public funding. To some extent, the roles have been reversed. Whereas voluntary organizations once worked to stimulate government (the enormous increase in government funding is a testament to their success), some federal agencies are now working to stimulate philanthropy. For example, the Community Services Administration is funding an effort to study the priorities and accountability of local philanthropies. Also, the National Endowment for the Arts' matching grants program, by insisting that its grants be matched by private funds, has had a major impact on the distribution of private support for the arts.

The Bureaucratic Burden: Saying that paperwork is not the most important problem with government support is not to say that it isn't an important problem. As many have pointed out, applying for and administering government funds takes many resources. One recent study of a relatively small government research program found that the applicants' cost of applying for and administering the grants combined with the agency's costs of reviewing those applications and administering the program exceeded the total amount of funds awarded. One effect of the complexity and expense involved in government grant programs is, again, to limit government funding to certain types of voluntary organizations.

Other Process-Related Problems: The recent Office of Management and Budget study of federal assistance noted a number of problems experienced by "voluntary social welfare organizations" that receive government funds. These problems include a lack of predictability and uniformity in indirect costs, certain costs not being included in a grant, audits done by a variety of levels and agencies of government, payments of grant funds being delayed, a lack of clarity in how a budget can be changed, an excessive amount of time to renew a grant (an average of 2.3 months) and inadequate procedures for dealing with "high-risk" grantees.

Overdependence: One of the conditions that allow government funding to control an organization is when that funding constitutes a large part of the organization's budget. When that happens, the organization often loses its ability to refuse funding that is too conditional. And, if its government money is cut off, the organization will be confronted with a major funding crisis. The potential for such a crisis is particularly high now for two reasons. First, the country is in a budget-trimming mood and funds for voluntary organizations are often the easiest money for a federal agency to eliminate. Second, New Federalism has caused an increasing amount of federal money to go to state and local governments rather than private organizations; the OMB study said the cities' share of federal funding has risen from 10 to 30 percent.

Transitory Nature of Funding: Related to this problem, many voluntary organizations have gotten funding for too short a period of time to be effective, particularly if they are experimenting with a new approach and trying to get that approach more widely implemented. New ideas take time to develop into effective programs.

Related to this is the transitory nature of other sources of support such as CETA employees and VISTA "volunteers." The limit is usually one year, which is only enough time for a person to become effective at what they are doing.

CONCLUDING THOUGHTS

Underlying most of this paper is, of course, an assumption that action is what "voluntary action" is supposed to be about; that innovating, overseeing and redressing are what voluntary action organizations should be doing. Unfortunately, much of the public has lost a sense that these are critical roles for voluntary organizations; many people now equate voluntary action with "charity," which they conceive of simply as the provision of welfare services. As this paper has argued, much of the reason for this is that government funding has blurred the distinctions between voluntary organizations and public agencies.

The problem is that the case for voluntary action organizations is not being made effectively, either to the public or to the government. Certainly, the rhetoric is there: for example, United Way National Executive William Aramony states that United Ways "are always searching for ways to respond to the struggling new agencies that are often the catalysts in the voluntary sector." But the reality often doesn't correspond to the rhetoric: in United Way's case, 294 of the largest United Ways support only an average of 1.5 new agencies a year, and those newly-supported agencies are often not even new agencies. The reality is that there is a tiny amount of private funding available for anything that is new or innovative or challenging or run by minorities, something every recent study of philanthropic giving has documented.

The result is that the public doesn't see very many voluntary organizations that are really trying alternatives, or that are making government and business more responsive, or that are representing the interests of the powerless. Certainly those groups exist, but their effectiveness is extremely limited because philanthropic resources are dominated by the more traditional voluntary organizations.

One effect of this gradual loss of the meaning of voluntary action is that voluntary organizations are becoming increasingly irrelevant to government officials, who see them mainly as the providers of government-funded services. The best illustration of this can be seen in OMB's seven-volume study of federal assistance, which devoted only one small section of one volume to the concerns of "voluntary social service organizations," a section that didn't even broach the questions like why voluntary organizations should be funded. Even the writers of the study commented on the absence of representatives from voluntary organizations, saying (in a classic understatement) that the "degree of protection and concern for the sector is less than it should be..."

The only way to change this is to begin a massive campaign to reeducate both government officials and the public (and perhaps some voluntary organization officials themselves) about the importance of voluntary action organizations.

To make that case effectively, a distinction needs to be made between voluntary organizations that are service-oriented and those that are cause-oriented. Putting such a diversity of organizations with such often conflicting interests together under the heading of the "Third Sector" is inappropriate and misleading. Perhaps people committed to voluntary action should begin talking about the "Fourth Sector" which, like the "Fourth Estate," would be conceived as being outside the other sectors.

Whatever, a campaign to promote voluntary action organizations should emphasize that government has a responsibility to and a need for voluntary organizations, which implies that government "ensure that these associations have equal access to grants and other means of support" (in the words of the Canadian report on voluntary action).

To make this case effectively, certain things need to be emphasized about the potential of voluntary organizations. First, their potential for helping make government work effectively needs to be communicated. The OMB study of federal assistance talked extensively about achieving accountability, noting that it is the search for accountability that generates so many regulations and so much frustration, (and often, so little accountability). But the study came up with no new ideas on how to make government funding programs more accountable. What needs to be tried is a new approach which would emphasize achieving accountability not by imposing it from above but by balancing "political" forces that impact a particular funding program. This can be done by supporting voluntary organizations which would monitor the use of government funds and challenge misuses of those funds. The underlying idea is that a balance of power should exist not only within government but outside of government. The Canadian study put this well, saying that the voluntary organizations should be supported not so much "because they represent the public interest, but because it is in the public interest that they participate."

It must also be made clear that the only way to achieve meaningful citizen participation--an expressed goal of many government programs--is by supporting citizen-run organizations which have the resources needed to participate meaningfully.

The corollary role of such organizations--which is to act as "mediating structures" that stand between an individual and the "large institutions of public life" (in the words of an American Enterprise Institute study)--also needs to be emphasized.

Finally, the potential of voluntary organizations for experimenting with and nurturing new ideas must be communicated more convincingly. First, the need for social innovation should be made clear. Developing an analogy between the importance of investing in things like alternative energy technology and investing in alternative approaches to social problems is one approach. Another is emphasizing the need for societies (and institutions) to evolve, and the historical role that voluntary action organizations have played in stimulating this society's evolution.

Second, the fact that smaller, newer, independent (e.g., private) organizations are to most creative should be stressed. Voluntary sector researchers could begin

to generate some persuasive facts to bolster the sector's less than persuasive rhetoric; a good example of what's needed is the statistic that small businesses involved in research and development activities produce 24 times as many major innovations as large firms per R & D dollar expended (according to a paper prepared for the White House Conference on Small Business).

Third, much more of the voluntary sector needs to be about innovation. It's very easy to be deceived into seeing small changes as being much more significant than they are. A recreation agency, for instance, may think it is making significant changes when it begins a special program for inner city kids, or when it begins to emphasize soccer rather than football. But the most significant innovations in recreation involve entirely new approaches to teaching people about their bodies and movement and play, and the relationship of that to things like mental health and creativity. But very few voluntary organizations involved in recreation are experimenting with these new approaches and the ones that will get precious little philanthropic funding. One could say something similar about most other areas in which voluntary agencies are involved.

The primary point of all this is that there are certain aspects of voluntary organizations that can be "sold" both to the public and to government, but to do so is going to demand more clarity about what the strengths of the sector are, more commitment to making more of the voluntary sector reflect those strengths, and much more effort at communicating those strengths.

In relation to this, my recent experience at working with the media on issues involving philanthropy has shown me that most reporters have very little understanding of and interest in voluntary organizations. To generalize, they have an extremely narrow view of what voluntary action is, no sense of the potential and historical importance of voluntary organizations and, as a result, little interest in covering the activities of voluntary organizations. To most of them, "charity" is boring, and thus their coverage is perfunctory. Part of the reason is the somewhat jaded attitude developed by most reporters; part of it is the lack of attention most voluntary organizations have paid to understanding and working with the media; part of it is the institutional factors within the media that cause it to focus mostly on the sensational (which in charity means scandals); and part of it is that much of "charity" really has become boring. The result is a lack of understanding of voluntary action by the public and by public officials.

Assuming that a case for the support of voluntary organizations can be made effectively (a very large assumption), what forms should governmental support take?

The obvious key concerns the nature of the relationship between government and the voluntary sector. As I've argued, that relationship has of late been dominated by government. How can that be changed?

One suggestion advanced by Boston College professor David Horton Smith (and more recently by Waldemar Nielson) is a National Endowment for Volunteerism which would be a "quasi-governmental" body much like the National Endowments for the Arts and Humanities and the National Science Foundation. The idea is that, just as the arts, humanities and the sciences are important national resources that need to be encouraged, so too is volunteerism. The endowment would be a center for

information about, assistance to, and advocacy for voluntary organizations. Presumably, part of the assistance would be in the form of grants. One of the most important elements of the "endowment model," according to Smith, involves who decides how those grants are distributed. It would be a committee of peers--people from the voluntary fields itself--rather than government bureaucrats. Presumably, such people would be much more sensitive to the needs, realities and abilities of voluntary organizations.

The idea is appealing. The problem is that so much would depend on who the "peers" are. The main criticism of peer review in the other endowments is that the peers, because they're normally chosen on the basis of their accomplishments in a field, generally represent established perspectives within that field. But established perspectives is precisely what voluntary action doesn't need more of. One way to resolve this problem is to acknowledge the basic differences within the voluntary sector and create at least two sources of funding within the endowment. One would be controlled by the more established voluntary organizations, the other would be controlled by the newer organizations.

The other major problem with the notion of an endowment for volunteerism is that it could become the only source of federal support for voluntary organizations, and that would be a mistake because it would potentially allow a far greater degree of governmental control than is exercised even now. Holland distributes all of its governmental funding for voluntary organizations through one governmental agency (the Ministry of Cultural and Social Welfare), and 99 percent of all Dutch voluntary organizations that meet broad government criteria receive grants from the Ministry. According to the Canadian study, some Dutch voluntary organizations (like the YMCA, which gets 90 percent of its staff salaries paid for by the Ministry) are now considering whether they should withdraw from the arrangement because of the power it gives the government over their policies. As the Canadian study states, "the very diversity of the federal government may well insure a higher level of responsiveness to voluntary action in all of its diversity."

What is really needed is a focus for voluntary organizations within each federal agency, which would both advocate for such organizations within the agency and help them in their dealings with the agency. Something like this exists in Britain, where there is someone responsible for voluntary organizations at the assistant secretary level in all major governmental departments. Something similar to this exists in the Department of Housing and Urban Development, where the Office of Neighborhood Development is attempting "to be on top of the federal agencies and their roles in regards to neighborhoods so that community groups which come to us can get some of the information they need."

For this to be meaningful, these "voluntary organization advocates" would have to have positions of power within their agencies and there would have to be a similar advocate with OMB, as there now is for state and local governments.

In terms of the type of support, several things should be advocated. The most important is that federal agencies (or the new "endowment") create grant programs specifically for voluntary organizations, with the stipulation that at least some of these funds go to smaller, newer organizations. The amount of money wouldn't have to be great; indeed, one of the selling points would be that

there could be a tremendous return on this money. Politically, the argument for such funds would have to be based on anti-bureaucracy sentiment.

It would be ideal if the grants were primarily to support the organization. A few Canadian government agencies provide relatively small "sustaining grants" to voluntary organizations. The idea is that the existence of the organization is as important as the projects they're involved in. To state the obvious, the political feasibility of this idea is questionable.

What might make it more politically palatable is to combine such grants with an infusion of funds for management assistance activities. Going north once again, the Canadian study cites a case where a federal agency supported a voluntary organization's internal management study which enabled the organization to "improve the efficiency of their operations and become more responsive." Such support could stimulate some needed changes in older voluntary organizations and some needed management improvements in newer groups. One of the concluding observations in Bremner's Filer Commission paper on the history of philanthropy is interesting in relation to this. He wondered that, if philanthropy seeks to monitor and stimulate government, "does not government have a corresponding right to watch, prod, stop and support philanthropic activities?" The bothersome word is "stop."

Another way of providing support for voluntary organizations, one that doesn't involve too much overt control, is by funding some of their employees. CETA and VISTA have greatly helped at least some voluntary organizations. Both are regulated by the government, but voluntary organizations have been able to exert much control over what these people actually do. The main problem has been the transience of CETAs and VISTAs. To alleviate this problem with CETA employees, the government could provide half of their salaries the second year. With VISTAs, the government could provide a higher stipend and give VISTAs some opportunity to earn additional money through part-time jobs.

Another way the federal government could encourage useful volunteering and at the same time begin confronting the insulation of government employees is to encourage its employees to spend a certain amount of time working for voluntary organizations. For each hour volunteered, the employee could get credit for a half hour worked, up to a certain maximum. The precedent for such an exchange is the Intergovernmental Personnel Act, which allows federal employees to be "loaned" to other branches of government.

Perhaps by making federal employees volunteers, federal employees will begin to understand the need for and the potential of voluntary action. Provided, of course, that they work for a voluntary action organization.