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New Incentives for Middle Class Philanthropy: Radical Funding for the Public Good

Samuel M. Loescher

"[Nader] and his associates have thus far contributed little more than rhetoric to the fundamental problem of designing a new structure of financial incentives for public-interest law practice" (Emphasis added).

Simon Lazarus in The Genteel Populists.¹

"Ralph Nader is no accident upon the American scene. He argues a new way of governing. There will be a rash of Naderism during the 1970's—an outcropping of advocate planners, keeping the system honest by exerting constant pressures upon it. Where they are going to find the money, I'm not sure. (Emphasis added)"

Paul Ylvisaker in "Utter Chaos or Simple Complexity," Planning 1970.²

During most of the twentieth century middle class philanthropy has been substantially confined to propagation of the gospel, benevolences and such other public goods as United Funds and the maintenance of one's favorite college, youth club, and medical cause. Almsgiving has been substantially replaced by governmentally-funded welfare while generalized pioneering for the public good, to the extent that it persists, has been appropriated by our foundations.

Few would wish to see private associations burdened again with almsgiving, but many would welcome a resurgence of middle class volunteerism in civic pioneering for creative public advancement. Such pioneering was far from rare in the eighteenth and nineteenth centuries. Let me cite two examples.³

Prior to the Revolutionary War Benjamin Franklin initiated associational self-help to organize a library, found a voluntary fire department, establish a hospital, an educational academy and the American Philosophical Society, and to plan systems in cooperation with public authorities for the paving, cleaning, lighting and policing of Philadelphia streets.⁴ During the Civil War the official-sounding United States Sanitary Commission was privately organized and mass-funded to improve conditions in military camps and hospitals. Over the initial objections of President Lincoln, who feared that this voluntary association would become a
mere "fifth wheel," the Sanitary Commission developed a first-rate reputation as it inspected, uncovered, and helped correct defects in sanitary arrangements, drainage, water supply, ventilation and diet. Moreover, the monitoring function of the Sanitary Commission with its emphasis on visitation, inspection, and evaluation encouraged the development of other voluntary associations after the war to initiate the policing of almshouses, insane asylums, orphanages, and schools for the blind.5

The recent expansions in membership and budget of the American Civil Liberties Union and, even more dramatically, the explosive funding by mail of newly-founded Common Cause and Public Citizen, all suggest the presence of evolutionary forces at work in the American political economy that are encouraging a renewal of middle class associations to monitor powerful institutions and to advocate in behalf of the relatively powerless.

The rash of whistle-blowing disclosures of citizen professionals which have alerted us to the multi-billion dollar wastage on C-5As and attack carriers, the existence of My-Lais, the military assemblage of dossiers on 30 million civilians, the mass marketing of unsafe pharmaceuticals and automobiles, and the apparent substantial underpayment of presidential income taxes, have provided another manifestation of the private provision of public product at real sacrifices to the provisioners.

What developments have encouraged this new outpouring of pioneering private philanthropy? What further evolutionary stirrings in organizational development and tax theory and law promise to both magnify and institutionalize such private largesse?

I would suggest that realization by the public has gradually been deepening, since the conclusion of World War II, that the Administrative State is no match for the Super-Organizational Economy of giant corporations, trade associations, labor unions, and Farm Bureaus. Moreover, the super-organizations were coming to be recognized as privileged bastions with respect to perpetuating unequal market power, unequal access to information, unequal shelter from environmental controls, unequal shelters from tax levies and unequal beneficiaries of government spending. Gradually the middle class came to recognize the true significance of the old cliché that "Everybody's Business is Nobody's Business."

Item. Merely to persuade logically, historically and with popular support as to the need for new law to shove realities into conformity with professed ideals does not assure adoption of such legislation. Witness the prolonged resistance to progressive tax reform and election campaign finance reform.

Item. Merely to adopt a widely-supported law does not insure its vigorous enforcement. Witness the eighty-year resistance toward trust-busting, notwithstanding the Sherman Act's stricture concerning restraints of trade by every "combination in the form of trust or otherwise."

Item. Merely to establish an agency or commission does not insure that adequate budgets or first rate administrators or commissioners will be appointed. Witness the history of the Food and Drug Administration and Federal Trade Commission.

Item. Merely to fund generously an agency does not guarantee that all concerned publics will be adequately represented, and that thereby that elusive entity, the public interest, can stand a reasonable probability of being attained. Witness the typical posture of the Interstate Commerce Commission, the Federal Communications
Commission and the Federal Power Commission as each mediates solely between conflicting producer interests.

Beginning about 1966, with the growing trade-off of Vietnam fireworks for other public goods, a miniscule, but non-trivial minority of scattered households throughout the country, and largely anonymous to one another began to act economically irrationally. They decided to try to make Everybody’s Business at least Somebody’s Business. Moreover, their demonstrated affirmative actions have had contagious effects, so that three large public interest groups, ACLU, Common Cause and Public Citizen have collectively raised close to $10 million in 1974.

Such independent giving to private associations for the provision of public goods, at least to the extent that it is motivated by strictly private economic benefits, conflicts with the Baumol-Olson thesis on public goods. William Baumol has suggested that taxation is essentially a form of compulsory philanthropy in circumstances where individuals would willingly contribute if everyone else does but would be unwilling to contribute if other people did not. That an individual will opt for his own coercion as part of an agreed mechanism to insure the coercion of other members of his community has been elaborated upon in more detail by Mancur Olson. One who contributes independently and voluntarily to a large collective effort finds that his own contribution generates but an imperceptible impact; one who fails to contribute receives any supplied collective good whether or not he contributes.

But Mancur Olson is prompt to admit that his logic of collective action is not meant to apply to “philanthropic lobbies.” The variety of public interest associations which gained such financial support during the past decade are clearly concerned as they see it, with the love of mankind: philanthropy. Hence, the incentive to contribute is at least partly a moral one. The desire to counter the environmental wraths of the paper industry is not primarily the high probability that one will frequently attempt to breathe the stench or fish the bilge of its discharges. The desire to counter degradation to occupational health wreaked by careless firms in industries which bring us white, black or brown lung, is not primarily that one’s kin or friends are likely to be fraudulently enticed into employment of an offending asbestos, coal or textile producer who fails to internalize the full costs of production. The desire to counter the blandishments and deceptions of the cereal maker who fills boxes devoid of nutrition is not the probability that one’s own children or their children will become malnourished. Even the desires to enhance the competitive organization and behavior of the petroleum and automobile industries, notwithstanding the obviously perceptible income transfer consequent to restrictive practices and the dynamic wastes of overcentralized planning is probably not the private gain which the contributor to the public interest organization would receive. The principal motive behind voluntary contributions to public interest organizations would appear to reflect a moral one, or at least one of style: A desire to monitor the uses of power by public and private super-organizations, to protect the self-respect and enhance the decency of condition of fellow individuals, and to retard further erosions of the democratic process in the interest of organizational purposes.

Kenneth Boulding has suggested that voluntary contributions in society will increase: (1) the more pleasurable and individually redeeming is the activity itself, (2) the more the activity is perceived as being effective in increasing the welfare
of others, (3) the greater the rate of benevolence, and (4) the less the value of alternative uses of resources.

I have seen no evidence which suggests that on average our society has become much more benevolent (3). Most important in encouraging contributions to the public interest sector has been the greatly enhanced perception of the effectiveness of such activities in contributing to the welfare of others (2). The growing consciousness of corporate conglomeration, rising aggregate concentration, an oligarchical form of pluralism, corporate neglect of consumers, and the emergence of an unmonitored Administrative State have undoubtedly escalated assessment of the marginal benefits to be provided by civic monitoring and advocacy.

Some of the most dynamic, intelligent and morally stimulating men in America have undoubtedly found the public interest work pleasurable and individually redeeming, as have many of their deputies who have accepted employment at substantially under-market rates of compensation. Moreover, much first rate talent has found public interest work so inherently satisfying that they have given substantially of themselves on a volunteer basis (1). Finally, Steffan Linder in his thought-provoking, *The Harried Leisure Class* has recently suggested that the volume of time-engaging consumption already achieved by the typical middle class American and the growing scarcity of time to engage in further consumption contributes to a dwindling increment of satisfaction from further consumption. Linder is uncertain if we will chase harder for growing rates of income to offset the dwindling marginal satisfaction from its consumption or will change heart and voluntarily reduce the importance placed upon conspicuous consumption. But some “heart changing” is probable and unless such changers become concurrently less benevolent, they will not “cop out” and take the bulk of their productivity gains in greater leisure. Instead, they can be expected to volunteer more of their income to such altruistic activities as they perceive to generate greater benefit to the well being of others than the perceived reduction in value of foregone consumption goods to themselves (4).

The public interest association is thus somewhat unlike the large special interest association in its capacity to fund voluntarily on an individual and anonymous basis. Some non-trial financing can be generated on the basis of moral incentives. But the public interest association is not completely unlike its special interest counterpart in fund raising potential. Substantially more will be contributed if the collecting unit can be reduced in size and if greater assurance can be generated that a significant number of other like-minded citizens will contribute.

Mancur Olson has shown that all special economic groups with significant lobbying operations possess these lobbying operations as by-products of organizations which provide a valuable service to a captive audience. Labor unions provide collective bargaining and grievance machinery; dues which finance the union, and its lobbying, are typically collected consequent to union or agency shop agreements by the employer's payroll deduction. Trade association lobbies in industries with many members are financed as a by-product of trade association membership undertaken to receive general statistical, technical, and advisory services supplied by the association. The medical association lobby is substantially financed out of AMA memberships undertaken to get access to hospital facilities, malpractice insurance at favorable rates, or AMA journal subscriptions. With the exception of the National Farm Organization all major farm lobbies are financed from revenues generated as a by-product of the business services supplied by the association.
Within the past few years Consumers Union has established a consumer advocacy law firm in Washington, D.C. This auxiliary has already initiated some significant actions: for example, the quest for disclosure of corporate cost-profit data allegedly submitted to the Cost of Living Council to justify price increases and a Sherman Act challenge to voluntary steel import quotas negotiated by the U.S. State Department and exporting nations. The law firm of Consumers Union will undoubtedly make an important contribution and may indeed become the instrumentality by which an antitrust initiative is finally brought, if one ever surfaces, to dissolve General Motors. But I find it difficult to imagine that either the membership or subscription revenues from Consumer Reports will so increase as to permit Consumer Union to vastly expand the role of public interest monitoring and advocacy which it has already initiated.

The most promising organizational development to enhance greatly the incentive for middle class contributions to civic monitoring and advocacy is likely to be found in the example being set by the Student Public Interest Research Group, PIRG, movement which is spreading rapidly throughout the country. Some 500,000 students are now believed to contribute about $3.00–$5.00 per year to state-wide PIRGs in about 20 states throughout the United States. First established in Oregon and Minnesota, as OSPIRG and MPIRG, three years ago, major state-wide organizations also now exist in Michigan, New Jersey, Maine, Massachusetts and New York, where NYPIRG is today the nation's largest.

The organizing unit for a PIRG is a college or university campus—where the population sought for membership all possess at least one essential element in common: student status at a given institution of higher education. Following an intensive organizing drive, students will characteristically initiate a petition drive. A substantial majority of a student population will endorse a petition requesting their educational institution to assist the signees to tax themselves and all other students a nominal sum per semester, say $1.50 to $2.50. Funds collected will be used to finance a public interest research voluntary association which will affiliate with other units in the state to finance a state PIRG with funds to hire on a sustainable basis experts in law, economics and the sciences to direct research, to monitor super-organizations and to advocate reform of governmental and corporate organizations and practices at the state and local level.

Just as union members will petition or vote to tax themselves and all other workers in a would-be bargaining unit to pay dues in circumstances where they would not otherwise individually contribute, so students will opt to coerce themselves to do what they would be generally reluctant to subscribe to on an independent and anonymous basis. One major exception in the instance of the student PIRGs request for university help in administering the democratically-requested coercion is that objecting students are always guaranteed a refund, following a few weeks delay, should the objecting students return to request it, at posted times, to the university’s bursar.

The response of the educational institutions has varied. Some administrations have cooperated in full, even with enthusiasm. Some have resisted the standard mandatory-refundable fee—and have only acceded to a negative check-off at enrollment. Some have been even less cooperative and have permitted the adoption of only a positive check-off. A few administrations, or trustees have thus far refused to cooperate at all with the students’ petition.
The importance of the Student PIRGs is that they would appear to portend the development of Employee CIRGs, Citizen Interest Research Group. The demonstrated success of the student PIRGs in dealing with utility commissions, insurance commissions, highway departments, environmental agencies, and their readiness to push freedom of information issues and the growing publicity surrounding such matters will be contagious. Their example can be expected to encourage the far more affluent middle class citizens with up to fifty years active employment and earning power ahead of them to be responsive to proposals by organizers who appear at the establishment of their own employment. Moreover, formerly active participants of the student PIRG movement might be expected to organize a CIRG at their new places of employment: say, the Caterpillar Tractor complex in Peoria, the Granite Steel complex of National Steel in East St. Louis, or the Indiana Standard headquarters establishment in downtown Chicago.

In each instance such graduates of MOPIRG (Missouri), INPIRG (Indiana), PIRGIM (Michigan), or MPIRG (Minnesota) employed at the prospective establishment could expect to circulate literature and arrange lunch time meetings to laud to the employees of, say, the headquarters building of Indiana Standard Oil the civic virtues in power balancing to be gained by establishing a branch ICIRG, (Illinois Citizens Interest Research Group). Recognizing that pioneering citizen associations are likely to emerge for other philanthropic ventures, for example, the promotion of performing arts, and recognizing further that some employees may prefer to expand their own giving to such traditional philanthropy as youth clubs or private colleges, petitioning would probably focus upon winning majority support to urge one's employer to add ICIRG to the employer's voluntary payroll deduction plan, thus insuring a status comparable to that already held by United Fund.

Following employer authorization, the CIPG organizers might then seek conditional commitments to contribute by employees. For example, employees might be asked to agree to contribute ½ percent of one's monthly salary provided that at least twenty percent of one's fellow employees would also so commit themselves. By way of illustration, should at least 400 of an establishment with 2000 employees commit themselves ½ percent at an establishment where the average annual salary is $15,000, such a CIRG affiliate would be contributing $30,000 annually to the state CIRG. Moreover, employee CIRGs operating with the reinforcing assistance of organizational incentives might easily generate, from such interdependent contributions, for a state-wide CIRG in Illinois an annual budget of $3,000,000 for hiring professionals and for coordinating the volunteer efforts of off-duty employee-contributors.

Moreover, organized activity may emerge to encourage the flow of the most truly atomistic form of private philanthropy, whistle-blowing. CIRGs might join with state Civil Liberties Union Chapters to develop legislation and provide counsel to provide due process against capricious discharge for corporate and governmental professionals who legitimately blow the whistle upon unwarranted organizational secrecy. Whistle-blowing will never be without costs. But by reducing the prospective level of private sacrifice, and hence the magnitude of courage required of the responsible professional, the number of instances of courageous disclosures may actually be substantially increased.

Finally, public discussions have begun to focus upon the modification of Federal tax incentives (or expenditures) so as to enhance the impact of middle class
philanthropy in the total scheme of national resource allocation. Among the first
to propose democratizing governmental subventions to philanthropy was the
economist William Vickrey in 1947. Vickrey pointed out that our tax deduction
system in conjunction with the existing level of progressive marginal tax rates could
result in the government awarding $6 to every dollar sacrificed by a wealthy
individual while contributing but 25 cents for every dollar contributed by a small
taxpayer and contributing nothing to a taxpayer with an income too low to be
subject to tax. Vickrey envisaged a consequent plutocratic bias to privately selected
philanthropic institutions. To provide a more populist flavor to a privately
pluralistic process of allocation of government-subsidized resources to private
philanthropy, Vickrey proposed that a flat tax credit equal to 25 percent of the
amount given by each taxpayer be substituted for the present system of charitable
deductions, and its flagrantly regressive implications. A spate of comparable
proposals followed during the next twenty years.14

More recently Paul R. McDaniel,15 a law professor of taxation has proposed
that charitable deductions be replaced by a system of matching Federal grants in the
interest of democratizing the process of individual grant making. McDaniel
proposed that the percentage of matching grant be elevated in accordance with the
proportion of one's "corrected" adjusted gross income that one contributes. Hoping
to leave the current level of Federal tax expenditures unchanged for the current
level of private sacrificing, McDaniel suggested that the following matching rates
would tend to produce his twin objectives.

<table>
<thead>
<tr>
<th>Percentage of &quot;Corrected&quot; Adjusted Gross Income as a Percentage of Donated Donation</th>
<th>Matching Federal Grant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 2%</td>
<td>5%</td>
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<td>2–3</td>
<td>10</td>
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<td>3–4</td>
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<td>4–5</td>
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<td>8–9</td>
<td>40</td>
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<tr>
<td>9–10</td>
<td>45</td>
</tr>
<tr>
<td>Over 10</td>
<td>50</td>
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</tbody>
</table>

In 1973 foundation president Alan Pifer of the Carnegie Corporation proposed
that a 50% tax credit be offered to all taxpayers, thus raising for low and middle
wage and salary earners the tax advantage for philanthropy to the highest implicit
level of tax privilege currently received by wage and salary recipients in the
highest bracket.

Pifer admits that his proposal would have reduced government revenues by
approximately 4 billion dollars had it been in operation during 1971. But Pifer does
not shrink in recommending a compensatory offsetting reduction in lower priority
Federal budget items. Pifer explicitly wishes to elevate the proportion of resources
allocated through the private, not-for-profit sector as much as he wishes to
democratize the role of philanthropy—by freeing charitable institutions from the
risks of undue dependence on the wealthy. Even more importantly, and in keeping
with the evolutionary patterns detected in this paper, Pifer contends "reform of
the charitable deduction would be a step in the direction of decentralization of
decision-making in our society and the encouragement of diversity in the ways we
achieve our social objectives.”

Thirdly, Waldemar A. Nielson, foundation consultant and critic, and recent
author of The Big Foundations, last year made the most radical and exciting
proposal to both democratize and rejuvenate pioneering by voluntary associations. Nielson proposes that every adult citizen be given the following additional option
under the present revenue code: a fully matching (100%) tax credit set tentatively
at $100 per year ($200 on a joint return) upon presentation of documentation of
gifts of that much or more to bona fide charity. Interestingly, even the poor
would be encouraged to make “costless” gifts which they might conceivably choose
to use to support their own community action programs, or even a WIRG (Welfare
Interest Research Group).

Nielson wishes to eliminate the connotation of plutocracy from philanthropy.
He recognizes that his proposal could require up to $8 billion in additional taxes
or cutback in alternative Federal programs. But Nielson believes that such
democratization of charity is essential to reaffirm “the fundamental American idea
that individual citizens should take as much responsibility as possible for supporting
voluntary actions for the common good.”

Nielson sees such “revenue sharing” from the federal government to the
private non-profit sector by way of individual decision-making as essential if
“We mean what we say about the importance of pluralism, diversity and limited
government.” Indeed Nielson’s proposal has all the moxie of a Baumol-Olson
proposition with respect to employing the mix of governmental coercive taxation and
lump-sum conditional subsidies to induce an egalitarian increment of atomistically
allocated grants to the privately philanthropic sector of the economy.

Not surprisingly, Nielson singles out “Naderism” as one direction in philanthropy
in which his version of “revenue sharing” might particularly encourage young
people with modest incomes to contribute.

Finally, we may expect to hear proposals to remove the severe limitations upon
lobbying activities of philanthropic organizations which seek to qualify as bonafide
charities for donors who seek tax deductions or tax credits. The limitations
seriously circumscribe public interest-type associations. The realization is gradually
spreading that corporations, and their trade associations, for over a decade have
been fully entitled to take as a legitimate business expense any and all of their
lobbying expenditures. In the instance of corporations this amounts to about
a 50 percent tax subsidy. Moreover, labor unions have always been entitled to engage
in unlimited lobbying activity without jeopardy to full deductability by union
members of their union dues.

Why should consumer, environmental, cultural, and “clean government” lobbies
by financially handicapped as they attempt to guarantee that all interests will
get to be represented before our legislature and their committees?

Indeed Congressman John Anderson (R., Ill.), co-author of the Common
Cause favored Anderson-Udall bill for reform of electoral campaign expenditures,
has warned the public not to expect a miraculous reduction in the powerful influence
of special economic interest groups consequent to adoption of an effective campaign
finance reform. The special economic interest groups will continue to hold a
competitive edge by means of their continual presence and the expert staffing of
their lobbying operations. Indeed the special economic interests can be expected, admittance with some sacrificed trade-off in marginal benefit, to shift some of that non-tax deductible money from the prohibited area of campaign expenditures to its tax-deductible lobbying sector. Such a reallocation of funding will further enrich and empower the lobbying capabilities of the special economic interests relative to the unsystematic lobbying of general interest groups.

Equity and truly democratic pluralism call for unshackeling the public interest groups from all current Internal Revenue Service strictures concerning lobbying. Currently, such well-versed lobbyists as Common Cause and the League of Women Voters are seriously impeded in their fund-raising efforts by failing to qualify for I.R.S. tax-deductible status for their donors. On the other hand the Environmental Defense Fund and many of our contemplated Employee-based Citizens Interest Research Groups would be impeded in their quantum of allowable lobbying activity by a need to stay within the narrow allowables established by the I.R.S. to maintain a tax privilege for their donors.

It would not be unreasonable, however, to find the populist voices which seek antidotes to expressions of powerlessness of our citizens in the face of big business, big labor and big government to generate sufficient Congressional votes to repeal the I.R.S. regulation. Thus positive tax incentives may even be evolving for middle class funding for substantial public interest lobbying.
FOOTNOTES


8Ibid. p. ——.

9The Economics of Love and Fear, Wadsworth, Belmont, Cal., 1973, p. 31.


12Surprisingly, Mancur Olson omitted from his list of significant lobbies one of the nation's most powerful: the American Bar Association. Again, revenues for lobbying by this special interest group are generated from general memberships undertaken to qualify for the journals and continuing education provided by such bread and butter ABA Sections as Corporate-and-Business Law, Real Property-Probate-and-Trust Law, and Taxation.


18“Money, Interest Groups, and Politics: Realistic Reform and the Crisis of Confidence,” mimeographed and presented as a lecture at Indiana University, Bloomington, Indiana, January 31, 1974.