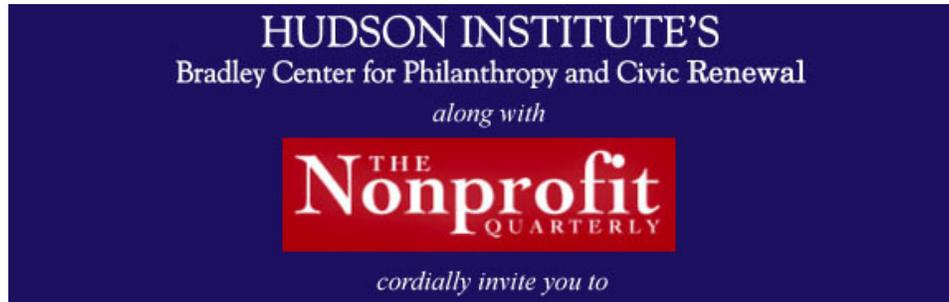


- *Edited Transcript* -



*present a discussion entitled*

# Crunch Time For }NONPROFITS{?

March 30, 2011, 12:00 – 2:00pm

## Program and Panel

12:00 p.m. Welcome by Hudson Institute's **William Schambra**  
12:10 Panel discussion  
1:10 Question-and-answer session  
**Tim Delaney**, President and CEO of the National Council on  
**Eugene Steuerle**, Richard B. Fisher Chair and Institute Fellow  
**Ivy Allen**, President of the Foundation for the Mid South  
**Steven Malanga**, Senior Fellow at the Manhattan Institute  
2:00 Adjournment

## FURTHER INFORMATION

This transcript was edited by Kristen McIntyre. To request further information on this event or the Bradley Center, please visit our web site at <http://pcr.hudson.org> or send an e-mail to Kristen McIntyre at [Kmcintyre@hudson.org](mailto:Kmcintyre@hudson.org).

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WILLIAM SCHAMBRA: Good afternoon. My name is Bill Schambra, Director of Hudson Institute's Bradley Center for Philanthropy and Civic Renewal. Kristen McIntyre and I welcome you to today's discussion entitled, "Crunch Time for Nonprofits?" It's a particular honor to co-host the event today with [The Nonprofit Quarterly](#) (NPQ), which is easily the liveliest and most informative journal in the world of nonprofits. Indeed, no other publication or website really has come close to NPQ's coverage of our topic today. And we're pleased to have with us in the audience the man behind much of that coverage, Rick Cohen.

First, our customary preview of coming attractions. Please mark your calendars for our [next panel](#) to be held on April 15, noon to 2 PM. The topic will be the W.K. Kellogg Foundation's "[America Healing](#)" initiative, an effort that approaches its work explicitly within the framework of structural racism. Our panelists will include Kellogg president, Sterling Speirn and the Kellogg vice president in charge of the initiative, Dr. Gail Christopher; plus Harvard University's Stephan Thernstrom and Ron Christie, author of *Acting White*.

Now for today's panel, "Crunch Time for Nonprofits?" Although the title includes a question mark, it is largely a rhetorical device since we pretty much know that it is indeed crunch time for nonprofits. That fact becomes painfully clear from NPQ's coverage of conditions in cities and states across America, which appears each morning in its superb morning newswire. That alone is worth the price of admission at NPQ. So be sure you're receiving their morning release. The central question at every level of government today seems to be, how can we extract more de facto taxes from nominally tax exempt nonprofits, while paying them less for services rendered?

One of our panelists today, Tim Delaney, president and CEO of the National Council of Nonprofits, did a particularly nice job, I thought, of summarizing all these challenges in a two-part piece he did for NPQ entitled, "[An Uncomfortable – But Necessary – Conversation](#)." And since the Bradley Center is all about uncomfortable but necessary conversations, this seemed a natural topic for today's panel. Some would say we even like uncomfortable and unnecessary conversations, but that is only because this is a sector that loves comfortable and unnecessary conversations.

Tim Delaney himself will speak first this morning, followed by Ivey Allen, president of the Foundation for the Mid South and a board member at NPQ. We'll then hear from Gene Steuerle, one of the nation's leading economists housed at the Urban Institute. And finally, we'll turn to Steve Malanga, senior editor of the Manhattan Institute's *City Journal*.

TIM DELANEY: Great, thank you Bill. I'm delighted to be here to participate in this very necessary conversation on a truly uncomfortable topic. I'm delighted to be here and want to just do a shout-out to *The Nonprofit Quarterly*, who was kind enough to publish the article that I wrote. For those of you who want to follow up on Bill's suggestion that you open your email every day to see what *The Nonprofit Quarterly* is sharing with us in terms of policy issues across the nation, I would encourage you all to go to their website, [www.NonprofitQuarterly.org](http://www.NonprofitQuarterly.org), and sign up for their free newswire, which is a must-read, I believe, for nonprofit leaders.

In the limited time that I have here I'm going to be exploring three overarching points. The first is that governments are starving for revenue. As a consequence, they are now proactively shifting their burdens to the nonprofit sector. Second, that nonprofits have been steadily marginalized from the public policy process. And third, I want to close by offering you some solutions. If I don't get time to address the solutions, please feel free to raise your hands for questions later on, and then I will share them. Because as a lawyer, I sometimes run out of time.

To start, let me set the broader framework. I used to work in state government and I'm proud of the time that I spent in the Attorney General's office in Arizona. I got to meet a number of terrific public servants who were doing wonderful work. These people are hardworking. They're dedicated. They're loyal to the public that they are serving. They're not evil. So when I get to talking about how government is picking our pockets, I want to say up front that they are not evil people, but they are forced to do some things now that they're not thinking all the way through, in my opinion. And here's why – they're moving so quickly that they can't think as clearly as we might like them to do.

In case you missed it, *The Economist* declared that the great recession actually ended last year. However, many of us think that it is still continuing. And in fact, the conditions for state and local governments continue to deteriorate. State tax collections are now 11 percent lower than they were before the recession. In the last couple years alone, state budget shortfalls have totaled \$430 billion dollars. Now on top of those huge losses, officials in 44 states and D.C. are now saying that for this upcoming fiscal year, 2012, that they will be short an additional \$112 billion dollars.

And it gets worse. As I travel across the country, people say, 'Tim, please tell me it's getting better.' And unfortunately, I cannot lie to you. It is still getting worse. The projections from 26 states are that in fiscal year 2013 their budget shortfalls will total at least \$75 billion dollars more. With 15 million Americans out of work right now, that means that consumption is down. Tax revenues are down and demand for public services is up. Plus, the stimulus funding is ending, so that is now hitting the states as they're trying to balance their budgets. It continues to get worse. Again, my point here is not that government is evil as they are going after nonprofit resources, taking money away from our missions, but rather, they are themselves stuck in a horrible challenging situation.

But just because our public servants in the government sector are hurting does not mean that we have to stand here and take it. We have the First Amendment, the constitutional right to use our voices and we need to be using them to talk about some of these challenging threats. These threats that I see happening are as a result of government starving for revenues. They are shifting their fiscal burdens onto the backs of nonprofits and foundations in four discernable ways. The first way is that they are abusing the contract relationship by withholding money from nonprofits, money that is legally and morally owed to those nonprofits. We had occasion to work with the Urban Institute, who did some wonderful work on this last year by documenting the extent of those problems. They used the human services nonprofit subsector as their data pool. They were able to discern that governments are consistently failing to pay the full cost of services. What is consistently? Sixty-eight percent of nonprofit human service providers indicated that governments were not paying the full cost of services.

This is not just what nonprofits are saying. The United States Government Accountability Office documented in a report that they released last year, that if you were a nonprofit in Wisconsin, you could get reimbursed up to 14 percent of your administrative overhead. If you're the same nonprofit doing the same work, the same public policy, getting paid by the same federal government, and if you're doing the work in Louisiana, you only get 9.6 percent as opposed to 14 percent for administrative overhead. Why? Because the State of Louisiana would take a slice of that and keep it for itself. You think that's bad? Well, what if you're the same nonprofit doing the same federal public policy work in Maryland? Then you get 0 percent of your administrative overhead, because the State of Maryland takes the full 14 percent and keeps it for itself. So the nonprofit is doing the work, but the state is keeping the revenue. What is wrong with this picture?

Another example of governments not paying the full cost is that the research showed that 26 percent of the time nonprofits had to raise at least 50 percent matching funds. More than half of nonprofits reported that they had to raise at least 25 percent matching funds. Why is it that when we're talking about providing basic human services to individuals, our government is requiring nonprofits to go out and raise

matching funds, and yet if we are a defense contractor, we don't have to go out and hold bake sales and car washes. What's wrong with this picture? Why are we imposing these added burdens onto nonprofits? Why isn't government paying its fair and full share?

Another documented problem was that governments are frequently changing the terms of the contracts midstream. How are they doing that? Fifty-eight percent of the time, they're changing the contracts after they started. I'm a lawyer. I spent four years of my life litigating, suing the state government that had changed the terms of the contract of a defense contractor that had the wherewithal to challenge that. Nonprofits don't have the money to sue the state to say, 'You're treating us unfairly.'

Governments are routinely paying late 53 percent of the time, the complexification of the contracting problem. Normally when you do something repeatedly, you reach a simplification process and it makes it easier. But when we're dealing with government contracts, what's happened in the human services area is that there is this complexification. And it gets worse and worse and worse with more band-aids, more adjustments, more fixes to the point that it is unworkable. We have an antiquated human service delivery system in America that needs to be fixed. We need to focus on it. And that's a problem 75 percent of the time.

And 76 percent of the time, nonprofits reported complexification on reporting requirements. Who is against reporting? Nobody's against reporting. It's the silliness. It's the wastefulness that people are objecting to. When you have to go out and be fingerprinted by four different state agencies and your employees have to then go, drive to four different communities to get fingerprinted, or when you have five different state agencies coming in and auditing your same books and records. Why can't they share amongst themselves?

We started looking at this and saying, 'You're picking on nonprofits.' And then after we were meeting with some government officials, we realized that we needed to flip this analysis and recognize that we, the taxpayers, are now being hurt because the taxpayers are paying for five different sets of auditors and four different places to go get fingerprinted. Why can't government share that information within itself? That's just one of the four ways that government is shifting its burdens onto us.

Another is taking money from nonprofit missions through new fees and taxes, sometimes imposing them directly, notwithstanding the state constitutional protections against them, and many times indirectly by simply reclassifying property that for decades had been labeled as nonprofit, and now they're reclassifying it as taxable property. Trying to get around these constitutional provisions, they're coming up with creative mechanisms, such as calling them bed taxes. We can't go out and tax the nonprofit hospital directly for its property, so we'll come up with a sick bed tax. We can't go after the nonprofit educational institution directly with taxes, so we'll come up with a student bed tax. Or if you're in some jurisdictions you'll say, 'Hey, we'll just call it a broad bed tax.' Whether you're a hospital, a nursing home, or an educational facility, we'll get you that way.

We also have creative things such as in Nassau County, New York, where they came up with the idea of a sewage user fee. You think that through for a moment, that's actually a toilet tax. Every time you use the sewage, there you go. How many cents are you then flushing away? Or if you're in Minneapolis, they couldn't go out and tax nonprofits directly for their property, so they came up with an innovative street pole fee. If you're employing people inside of a building and there is a street pole out in front of it, then you have to start paying for the street pole usage as opposed to the property tax. Again, always creative ways to try to reach into nonprofit pockets and take money away from our mission delivery to pay for government.

I know that everyone loves to watch what's happening in D.C. at the Federal government level, but please look at what's happening out in the state governments because this is a major tragedy in progress. We have state after state saying that they are going to walk away from their public programs and abandon them. They are going to offload them onto nonprofits. Arizona deployed this tactic last year when they cut Medicaid funding to eliminate organ transplants for the poor. People died. People didn't just talk about dying. People actually died because of this. Now the legislature is running back saying, 'Oh, we didn't mean that. We'll have to go back and fix it.'

The governor of Washington State, a very good governor, a public servant that I know and really respect, when she released her budget this last year, she was saying such things as, "I hate my budget." She added, "It used the word eliminate 80 times." They're eliminating programs left and right. In my travels across the country, I'm meeting publicly elected officials who are saying, 'Thank God nonprofits are there, because we in government are trying to right-size government' and 'We're just doing these things, and thank goodness that you get to pick up the pieces afterwards.' They are also going to be suggesting that we have to pick up responsibility for that. And they're going to be saying, 'Well, that's the nonprofits' fault, because they aren't doing it.'

I fear that our public policymakers are not aware how much government relies on nonprofits to deliver basic human services. And so as they are then shifting things over to us, they don't realize that 27 percent of the nonprofit sector's revenue comes from government. Only 1 percent comes from foundations. Foundation pockets are not big enough to fill that void.

Finally, governments are draining the philanthropic pool in that they are creating their own competitive nonprofit organizations to raise money because the policymakers are afraid of saying we have to pay our fair share for the full amount. So they are going out and competing with us for donations from foundations. We've seen several proposals by state legislatures where they're trying to un-end thirty years of efforts, such as they're doing in Michigan. They're trying to take away all tax credits and charitable giving incentives to say, 'Well, we're going to allow other people to do it.' Unfortunately, on the shift there, they're taking money away from the nonprofit charitable tax credits and then they're giving a tax credit to corporations.

Nonprofits unfortunately have been playing a role in this process. It's not just government trying to take our money. Nonprofits have been sitting on the sidelines, not using our voice, not using our constitutional rights, not standing up and saying that this is wrong. We've been marginalized from the process in five ways. We've been marginalized because professionals, attorneys, accountants, and academics are telling nonprofits, 'Ooh, you can't lobby' and 'Ooh, this is really horrible. Run! Run!' The L word is being used and it is shameful that that's going on. It is no longer almost malpractice; it is now malpractice when attorneys are telling their clients they cannot lobby. Those lawyers have not looked at the actual laws. We must challenge our own legal advisors, our own accountants, and our own people in the academy by saying, 'No, we can lobby. We have a first amendment constitutional right. We have statutory rights to engage in lobbying.' We must use our voices.

Second, we have attention deficit disorder, or actually disorder in that people have been told by the academy, by foundations, by government, and most of all by consultants, because it's a whole lot easier to engage in navel gazing, let's look inside. Let's find out about ourselves. Let's do all these reports. Let's do all this stuff. Let's have an audit committee and a finance committee and an internal committee. And I'm not saying that those aren't important, but it's become all internal and we're not looking externally to having impact. That is why nonprofits were created, for an impact on the outside world, not on how nice and neat and tidy your 990 was. 'Look, there are no smudges outside the line, mom. Look how wonderful I am.' Well, are you having an impact on the world? The only way you can do that is to be engaged in change and making a difference. We've got to raise our voices.

The third thing, or the structural barriers, is that we don't have a reserved seat at the table. Nonprofits have been left behind. We employ more than 13.5 million Americans. That is 10 percent of the American workforce. That's more than manufacturing. That's more than the construction, finance and insurance industries combined. Yet for 230 plus years we've had no place to turn to inside government about nonprofits. We don't have a single legislative committee, subcommittee, taskforce or anything else you might want to call it at the federal level. We've had no person in government at a Cabinet-level position focused on the health and wellbeing of the nonprofit sector until earlier this year when the new government in Connecticut created the first Cabinet-level position. And I'm delighted to tell you, please keep reading the newswire on *The Nonprofit Quarterly*, because you'll be seeing soon announcements of other creations. So we do have headway underway there.

Fourth, we have discriminatory process barriers that are just outrageous. Why is it? I understand we cannot make political contributions and I actually think that that's a good thing; nonprofits should not be making political contributions. But because of that, we get sidelined. We're not heard as much. Another problem is when we are lobbying, we have to fill out extra forms. We have to do extra calculations. Is it direct lobbying or grassroots lobbying? What is the great threat that the local hospice or the local food bank has to democracy writ large that we cannot allow them to speak freely to their fellow citizens, to their fellow neighbors, but big tobacco, defense contractors, and others, who are not paying any taxes either, as we're reading about GE and others, why is it that they can go out and talk to everybody without limitations, without having to jump through those extra hoops?

Finally, nonprofits right now are struggling for our survival. We find ourselves with limited time and limited resources. We need to have more foundations investing in nonprofits by giving us general operating support, so that we can go out and do the good in our communities that needs to be done. Research has shown repeatedly that who gets to do the lobbying for nonprofits, time and time again, is the CEO, who is also in charge of communicating with the board and fundraising and psychiatric work with staff, [LAUGHTER] and everything else. So we've got to find a way to empower and give the resources to our nonprofits so that we can have a voice. I see that I am way over time. I am an attorney. I will now apologize for that. The three-hour PowerPoint slide program will go on later. [LAUGHTER] But I would now like to turn it to my colleague to come up here. I will invite questions about solutions later. Thank you. [APPLAUSE]

IVYE ALLEN: He's ready for the fight. As Bill indicated, my name is Ivey Allen and I serve as president of the [Foundation for the Mid South](#). I'm going to come at it from the angle of, the foundation believes that there is a role for advocacy in the work that we do and what we support. I'll tell you a little bit about my institution before I go into the descriptives of what I support. The Foundation serves Arkansas, Louisiana, and Mississippi. Those are three states that have limited resources. And although we're a foundation, we also serve in some parts of the three states as, quite frankly, the nonprofit organization that's there. So we're a combination of a community foundation and an operating foundation at the same time. For us, when you talk about lobbying and you talk about those three states, you're correct. Those are three states that have limited budgets and there are continuous budget cuts. That is going on right now in those states, so it is a challenge.

But we as a foundation support advocacy. We also support general operating support to the nonprofit groups that we work with. But from our lens and our perspective, we look at four areas: education, health and wellness, what we call wealth building, but it's really economic self-sufficiency, and community development, which encompasses civic engagement, as well as looking at housing and other green-space ideas. For us, advocacy is important. We believe that change, quite frankly, doesn't just come from addressing basic needs today, but it comes from addressing those inequities. That's where advocacy plays a role. Because in the long-term, and we are to technically go out of business, it is because those

inequities have been addressed. In order to do that, you must advocate. We don't support lobbying, so you won't hear me saying the word lobbying, per se. But you will hear me continuously say advocacy.

For us, we look at it from supporting traditional groups whose role is to do strong advocacy. Those are groups, such as the NAACP, Center For Economic Justice, Arkansas Public Policy Panel, and groups like that, that it is their role to primarily be at the state houses during the legislative session. But we also encourage the nonprofit groups that we work with who are on the frontlines dealing with basic needs. They're the ones who know best what is required and they're the ones who can really sit and advocate on behalf of the people that they serve. For us, lobbying isn't just about talking to the Federal officials. Quite frankly, it's not just about addressing state level policy. But it's also about addressing things in the local areas.

I'll give you a couple examples. When you look at Katrina, and we all know about the challenges that occurred there, for us, we supported groups who were, quite frankly, just before the local zoning board pushing back on housing policies that were requiring that folks build elevations very high, would have priced out people who were in those homes for a long time, but also would not have been able to come back. So for us, the nonprofit groups, being able to be on the frontlines and talk at those county zoning boards, talk at those city council meetings, to sit and advocate on simple things, such as what seems simple but is very significant and really impacts those groups and organizations.

So you had local groups who never came to Washington, D.C., and it wasn't required for them to come, but it was important that they sit at those city council meetings in order to influence change and make sure that the policies did not basically displace people. We look at supporting things that way. You also look at, how do you really address statewide advocacy and statewide policy? In Mississippi, we supported a series of groups, very large groups, again, very small nonprofit groups, addressing things such as education. When you look at the Mississippi Adequate Education Act, which has been funded perhaps two or three times, one group that's been a lead on that is a group that's really soccer moms, at which they have email campaigns. But those email campaigns are to those areas where those parents can engage and basically contact their local state legislator and make a difference. So that's really not about a significant amount of money. It's really about having that email network in place. For us, we support advocacy. We believe in it. It's not just about massive policy changes, but is really at the local level that sometimes things can bubble up.

The second reason that we really look to do it is to influence policies and outcomes at both the local and state level. Other areas that we've looked at, and sometimes we're not successful. Mississippi has just gone through a massive payday lending debate. Arkansas, a few years back, was very successful in really, quite frankly, having payday lending removed from the books. And for folks, we, as an institution, don't say that payday lenders should be removed. Because when you get into some of those urban areas, that is what services those communities. There are no banks there, so those payday lender services are about paying bills. They're not just about making high interest loans. So in talking to legislators, quite frankly, sometimes African-American legislators, who will sit and say to us, 'There's not another place to service the people?' But for us, it's about, how can you regulate the loan amount so that it really doesn't turn into cost prohibitiveness for the individuals?

But in being able to do that, you know, we take losses. This time, there was a massive effort, lots of organizations, large and small, in support of trying to regulate at least the amount that the payday lenders were able to charge. We weren't successful in it, but what we did do was really lift up the issue and make people aware of it. And we believe when the law comes up again in the next four to five years, there will be success in being able to lower that rate. But in that process, you had individuals, as well as institutions, small and large, engaged in better understanding the impact of payday lending, but most importantly, in understanding how collaboratively their voice was making a difference. And it did make a difference at

the state level. As I said, in Arkansas, they were successful in changing the law. In Mississippi, it did elevate it. There are a lot of ads going out from the payday lenders with stories about people who borrowed \$200 dollars and were able to pay it back. That is the intent. But there are also instances where people have borrowed money and lost their home. So for us, it is about supporting advocacy. It is about supporting nonprofit groups.

We also operate on the philosophy that philanthropy cannot do it alone. As I said, those states are states with limited philanthropic resources. So we must partner with state officials in order to really make things happen and to bring about change. For us, in addition to supporting nonprofit groups, it is also our responsibility to sit and work with state entities in order to address inequities. So we do advocacy as well, for some of the things that we support and the issues that we're behind. From a practitioner's perspective, we find it very important to be supportive of it. We do find it important to give general operating support. But it is just as important that we not only support very large organizations, but we also encourage the very people who are on the frontlines every day to be the biggest advocates for what they see every day. They are there. We all know that there are budget cuts. But they're also there to be able to tell the stories of the work that is occurring.

We had this conversation previously about metrics and I was telling them that I'm a proponent of metrics. I'm not supportive of having people just do metrics for non-metric sake, but I think it's important to be able to demonstrate the outcomes and what you sought to do. Did you move the needle in regards to what you set out to do? So I'm a proponent of it from that perspective. But I do think that metrics also help move the policy agenda, and being able to sit and combine those two, support folks with the voices. But let's not think of it strictly as, we have to move federal policy. Because I think sometimes at the local level, it can move up to the state level. Ultimately the goal is, if you can, you will move it up to the national level. But advocacy is about being able to make a difference, and as I said earlier, our goal is to go out of business. And to go out of business, we've got to advocate for much more resources than what the private sector has to make changes come about. Thank you.

EUGENE STEUERLE: I'm honored to be here and also on this panel with three people I greatly respect. I hope that I can contribute to this discussion in a slightly different way, because I'm going to emphasize the difficulties that we are in. Then I'm going to try to indicate that, at some level, I think that this is actually also a time of opportunity. But I'm going to do that by first telling two stories. I'll tell a brief story about what's going on in the nonprofit sector, not nearly as elaborate as what Tim in particular gave you. Then I'm going to tell you a story about the budget and what's going on with the budget, which I think some of you know. Then I'm going to try to relate the two a little bit.

One of the ways I have to be careful with words like deficit, you know, you use a word one way and it means one thing to one person. It means something totally different to another. I'm reminded of some advertisements, announcements in church bulletins which I guess were technically correct, but could be misleading. One of them said, "Please put your contribution in the collection basket along with the person you want remembered." [LAUGHTER] And another one said, "Miss Frances Perkins sang, "I Will Not Pass This Way Again", much to the delight of the congregation." [LAUGHTER] And yet another one said, "The youth will be performing Hamlet in the basement tonight. Please come early and watch this tragedy unfold." [LAUGHTER] So one has to be careful with words here, in particular with the words having to do with deficits and budget, and stuff like that.

Let me start off by just summarizing the first story, which is the condition of nonprofits, but particularly, and I want to emphasize this, we're talking to no small extent in terms of the problems of human service organizations. One has to be a little careful when we use the word nonprofit because the factors facing hospitals, for instance, or higher educational institutions are very different than those facing human service organizations. Although at this point in time in history, we're all sort of in the same boat together.

Nonprofits, particularly human service organizations, are hurting. We know this. All sources of revenues are down. Tim (Delaney) mentioned this [study](#) we did along with them at the Urban Institute. All sources of revenue are down. Foundation donations and grants are down. Individual donations are down. Government agency payments are down. Corporate donations are down. Investment income is especially down. Even if you didn't have a huge capital loss, you certainly aren't getting much on your interest payments today. So the recession hit and it hit very hard.

At the same time, nonprofits have reacted mainly by trying not to pull back on services. Twenty-one percent said that they had cut back on services in this poll that we did, but 50 percent said they had frozen employee salaries. They had drawn down reserves in about 40 percent of the cases. So there is a danger as well that these nonprofits, in trying to get through this time, are actually hurting their own infrastructure and their own long-term capacity.

Another factor that is going on, which is going to relate the two stories, is that nonprofits are extremely reliant upon government contracts. And as governments have cut back on their payments, on delivering on time, all the factors that Tim went through, a lot of bad things have happened. As he mentioned, 68 percent of grantee payments do not even cover the full cost of services and for roughly two-thirds of nonprofits, they say that it is a big, not just a small problem. Also, I want to indicate, because we want to think a little bit into the future, that this is not just a problem having to do with the recession. It's a short-term problem, but it's also likely to be a long-term problem. In many, many ways, the short-term and long-term have merged. Demand for services in nonprofits is going up. Part of that is because we have increased demand for healthcare and for a lot of the types of things that nonprofits do.

I did a study awhile ago with Joel Cordes at George Washington University<sup>1</sup>. One of the interesting factors we concluded is if you actually look at industries and occupations in the United States, more and more of them are involved in the types of services that nonprofits provide. Now they don't have to be provided by nonprofits, but you think about healthcare and you can immediately figure that out. You think about healthcare and information as being more and more dominant in our economy, you can see more and more that nonprofits are into this game; that is into an expanding part of the economy. Then of course we have the aging of the population. We have other issues, such as the consequences of long-term unemployment, which we know extend far beyond a recessionary period. So this is not just a current problem for nonprofits. These pressures facing them are not necessarily going to end. So that is story number one. Doesn't sound great. We had a recession. Are things starting to look pretty good there? Well, not quite so well.

If you look at the government, my simple summary of the federal budget, for instance, is that the Federal government spends about \$31,000 dollars a household. This is total spending by the Federal government, divided by the number of households. It's \$31,000. They collect \$19,000 in taxes. You know what? That's a pretty big gap. The government collects about 60 percent of the revenue that it needs to finance what it's promised to people. And unfortunately, if that was just an issue of the recession, it wouldn't be so bad. But that gap continues into the future. That's because on both the spending and the tax side, there have been all sorts of untenable promises made into the future. So we have huge growth built in, particularly into the health budget, but also into the retirement budget. Meanwhile, we've decided to cut taxes below the level necessary to even support current services or the services before we went into the recession. That gap continues into the future under almost any projection of current policy and both political parties are afraid to tackle this issue.

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<sup>1</sup> <http://www.urban.org/books/nonprofitsandbusiness/>

Let me be clear about this. This budgetary issue, and I'm not talking about just through the recession, is a major, major threat to our economy and our people. You think we've got problems now with getting payments by governments or contracts not being delivered or our government not having the money to pay, just think of having another worldwide recession, which is well within the realm of possibility. I'm not saying it's probable. It's just well within the realm of possibility now in the near-term.

I mentioned that the short-term and the long-term problems for the nonprofit sector have merged. They've especially merged in the government sector. And I could give you a long budget talk, but the shorthand version of it is basically the built-in growth and spending, along with the low revenues, basically means that we already have built into the law deficits for the future. That is not something we ever did in the past. We had deficit problems in the past, but that was because you would have profligate Congress after profligate Congress, either cutting taxes or raising spending beyond what would get a sort of long-term balance.

Now we've got so many promises built into law. In fact, in 2009, I did the calculations and for the first time in the nation's history every dollar of revenue the government collected had already been committed before Congress walked in the door. So anything they wanted to do on the discretionary side of the budget, which is where all the human service providers are largely situated, anything they wanted to do to reform the system required them to go in and renege on a promise somewhere, because they had no slack, no give in the budget. Think of a nonprofit or a household that would sign contracts today for what it's going to do 30 years from now, using every dollar of income they expected to have plus some. Well, that's the condition of our Federal government. I haven't even gotten into the state and local governments, which have their own sets of squeezes here that go on as well.

In fact, this deficit issue is not just a deficit issue. I actually define it as seven issues that have now merged into one. There is this long-run issue of fiscal stabilization. If we don't get this budget in order, we're in big trouble. The second one is that our debt is now so high that it's very unlikely we can run counter-cyclical policy again. So some of the reprieve we got from federal payments this time around is very unlikely if we have any recession in the near-term. So we've reduced our ability to conduct counter-cyclical policy.

More and more of our budget is going for consumption and less and less to investment. This is particularly worrisome if you care about children's programs. Children's programs are particularly in that part of the budget that is getting squeezed. Independent of investment, we have a very aged social welfare structure. This affects nonprofits because they're often getting the money for these things, but these social welfare structures we've built up around our health and retirement were built 40, 50 years ago and we're having trouble dealing with them. Just to give you one example, basically our retirement system has become a middle aged retirement system. The average couple retiring at age 62 or 63, one or the other one is going to live three decades in retirement. And, by the way, when you stretch out money that long, we don't protect the very old. They are very threatened by this. So are the young, because they don't get the money.

We've got an issue of fiscal democracy. We've built into the budget so many promises for the future that we're telling the young that we've decided this thing. We've decided to keep low taxes and high spending growth rates. And by the way, we've already determined your future budget. You shouldn't be voting for the type of government you want in the future. We've got a classic, what I call "prisoners' dilemma." I'm being very shorthand here, but the prisoners' dilemma in this case means that I think both political parties are right, that if they give in too easily to what the other party wants, they just lose. They lose both politically and they lose in terms of their agenda. So that is part of the reason for the stalemate. I mentioned earlier, we've got this inability to fix things because politically we've got this very interesting and very unique dynamic system, that to do anything, whether it's for nonprofits or anybody else, to do

anything as a government now you have got to renege on some past promise. That is not easy as a politician to go in and say, 'By the way, I want to help Bill Schambra here, because he's got the Hudson Institute and it really needs some help. But by the way, to do that, I've got to cut back on some health or retirement benefits somewhere.' So this is a real fix.

I'm emphasizing this because my bottom line from all of this is that we are in this together. So the question is, how can the nonprofit sector and the government sector approach these issues? Because for many purposes, what nonprofits do and what governments do have the same public policy aims. I mean, they are trying to serve the public. Yes, at times we're substitutes. At times, we're adversaries. But I would say in large part, we are often complementary to each other.

So let's merge these issues. How are we complements? Well among other things, just to give you the size of the government in the scheme of things, government's social welfare function is about 20 percent of GDP. The nonprofit sector, if you look at charitable contributions alone, it's about 2 percent of GDP. So government has gotten more and more into social welfare. The relationship between nonprofits and government has really expanded. We see that especially in areas like contracting because what the government has done more and more is contracted out to nonprofits, which now puts nonprofits in a situation where, especially if they get larger, they are largely dependent upon what they can get from government, not as much on the charitable contributions. It's obvious in the case of hospitals and higher educational institutions, if you think about it. But it's also true for a lot of other nonprofits.

So how do we approach these issues? Well I think among other things, we need, at both the nonprofit level and at the government level, a better plan for growth. We don't just need to plan for what we do in a recession. I think part of our problem at the government level, but also part of the problem at the nonprofit level, is that we did not plan well during periods of good times for what was going to happen in bad times. I'd argue that things like the foundation payout rate are badly designed for this. We can have a higher or lower average rate, but we need one that is more counter-cyclical and not so pro-cyclical.

Government also needs to recognize its extraordinary dependence upon nonprofits. As I say, whether for good or ill, nonprofits are increasingly dependent upon government revenues. In fact, there was a significant drop in government employment, about 2 percent of the labor force, over the last two or three decades. It was exactly matched by an increase in nonprofit employment. So you start to ask what went on. What was largely going on is that the government stopped doing as much directly and it started doing a lot more in contracting out to nonprofits agencies. Think of healthcare and higher education and it starts becoming a little bit obvious. You know, basically, in a lot of nonprofits, we are, to no small extent, government workers, albeit under a contract.

So far for governments this has often been a good deal. It is an interesting issue too. It's not always a bad deal for the nonprofit either, but it's been a good deal because when the government contracts out, it often gets cheaper labor than it does when it contracts directly. It also, which is a threat to nonprofits, often does not have the same long-term commitment for that particular program being permanent. So in some ways, government has actually found a way to engage nonprofits to get a better deal. If it's going to get a better deal, then I wholly support what my colleagues here at the table say, then it needs to be fair to the nonprofits it's dealing with. By the same token I'd argue that nonprofits have to recognize their dependence upon government and that they are not going to be immune from sharing and dealing with this budget dilemma.

I've already indicated the threat of another worldwide recession. However, you have to think about what nonprofits might face up to. Let's say we are debating the question of tax deductions. It's not clear that every tax break that nonprofits get is well designed. I could make an argument before you here, I won't, that in my view, the income tax deduction is much more justifiable than the property tax deduction, in

part because there is a case for local governments to charge for some of the services they provide to nonprofits. We can argue what that level should be and what is the ideal level incentive they give. But I would suggest to you that nonprofits should not necessarily take a stance that every break they get, and every break they get under some status quo, is what they want. The ideal world we want is not the status quo, because, quite honestly, we're not going to have a status quo in the future. We're going to be raising taxes. We are going to be cutting spending and it's going to affect all of us. As members of nonprofits, we need to figure out how we're going to play in that game.

I'm just going to end with a conclusion. I don't want you to think I'm a pessimist. You know, the definition of a pessimist is someone, when he smells scent of flowers, looks around for a casket. [LAUGHTER] I think in part that is what we're about as we go through this really rough period. We are trying to figure out how we invest in our future. To give you the positive side of this, government revenues over the next ten years are going to rise by half a trillion to a trillion dollars. Now a lot of that is already committed to programs that maybe it shouldn't be committed to and a good deal of that is not going to go for deficit reduction. But when we're talking about dealing with these budget issues, we're actually, in the ideal, talking about how we can reorient our government back to investing in our future.

Deficit cuts are not just cuts. A deficit cut can be, if done correctly, an investment in the future, just as if as a household you decide to consume a little less and save a little more so you can finance your kids' education. There's another side of the balance sheet, which is the investment side of what's going on. And I would argue that that is sort of the attitude we should take. Remember my figure that the government spending is \$30,000 a year. Add in tax subsidies and it is \$10,000 more. Add in state and local spending and it is \$10,000. Government is already spending \$50,000 a year per household. There is money there. And if we think about how to use it well, in particular the way we allocate it in the social welfare budget and the way we allocate it to nonprofits, I think we can do a lot of good. We have a lot of opportunity before us. I think we should start with that positive stance toward going through this very tough period. Thank you.

STEVEN MALANGA: In looking over Tim's piece and studies from the Council, Brookings and the Urban Institute, it was clear to me that people went quite a-ways to look at the problems that we face and the depth of the problems that the country faces in general. I don't want to spend much time on that, except I want to add a few little things that I think about the nature of the problem.

First of all, at the end of last year, the best practices committee of the National Governors Association put out a report. They called it "The Great Reset", because they said that this is not your typical recession, due to its length and depth. Also because what is behind this recession may be a fundamental restructuring in our financial services, where we may actually have fewer resources than we thought. They went into some detail about this. Again, if you just look at tax collections and how today they're still slightly below where they were several years ago, in some areas of the country they're below where they were four years ago, this is not your garden variety recession. So the reason the National Governors Association called this study "The Great Reset" is because they said that it is time to reset government in America. They mean at all levels of government, but particularly at the state and local level. That means asking ourselves, what are our priorities? What can government do?

But the thing that they pointed out is that part of the problem right now is that it is not just that tax revenues have been down and that spending is continuing to go forward, but that a lot of the spending that is going forward is spending that has essentially been earned already, but we just haven't collected the revenues for it. This means that it is already locked in place. Let me give you an example of what I'm talking about. In January, when the President froze federal salaries and people said, 'Well, that's not going to do anything to solve the federal deficit because entitlements are a large part of the federal deficit and federal salaries are only a small part of discretionary spending.' They were right about that. However,

at the state and local level, compensation has become the game. Thirty percent of all state budgets are employee compensation, including benefits and healthcare. Fifty-five to 80 percent of local government spending is compensation, 55 percent in the big cities like New York and Chicago and up to 80 percent in our mid-sized cities. A lot of this is compensation that is not being earned right now, but has already been earned, we just never put the tax revenues aside for it. So the amount of flexibility that some of our current officeholders have on their budgets is very low, startlingly low, particularly when you get down to the city level.

Our big cities deliver services themselves and contract for services. New York City has a huge social services contracting budget. I believe there are 3,000 social service contractors in New York City alone. Flexibility is enormously limited as a result of that. Every day, they're getting bills. When Mayor Bloomberg started in office, the city was spending a billion and a half dollars on pensions. Now it's spending \$8.5 billion dollars a year on pensions. That's \$7 billion dollars in a \$64 billion dollar budget. That's money that just has to go there. Los Angeles now has to spend 18 percent of its budget on pensions alone. It was spending 4 percent of its budget on pensions.

All of these cities have gotten bills. They've gotten bills from CalPERS, the California Pension Association, saying this is what you will have to pay in the next couple of years. The school districts in New York City have gotten a bill. They're paying, not New York City or New York State. They're paying \$900 million dollars a year into the teachers' pension system. That is going up to \$4.5 billion dollars in the next five years. We've calculated that if property taxes alone have to support that, and property taxes support education in New York, property taxes alone will have to go up 3.3 percent every year, just to pay the pension bill in New York.

So these are numbers that provide office holders with very little flexibility. Now this has caused them to do things that are unconscionable. As someone who has written a number of stories and investigations into the way states and cities are using budget gimmicks, I am well aware of what they are doing on the contracting level. Illinois is the prime example of this, but California is doing the same thing and so are a number of others. And it is really disgraceful to a certain extent. The problem is that they're not just doing it to nonprofits. I'm sure you understand that. They're doing it to their small business contractors. They're doing it to all their contractors.

They're even doing it to other governments. States have committed money to schools and municipalities and then just simply haven't sent that money out, even to other states. California sent IOUs, scripts, if you will, to Nevada because Nevada was helping California fight fires. California says, 'Sorry, we can't pay for this right now. Here, take an IOU.' They've done it to taxpayers too. Now I'm not talking about tax increases. Tax increases are part of the political process. That's one thing. But in places where the tax increases weren't enough, towards the end of last year California just simply started withholding more money out of everybody's paycheck in California, knowing that they were not going to be able to keep this money. They did it in November and December, knowing that in April when people filed their taxes, they would have to send it back. Then they said, 'Well, we can't send it back right now. We're going to send it back in June.' So it's a tax-free loan. I'm not even sure how that is legal, but that's what they did. It creates a problem, because when you stand up and say, 'This is horrible' people say, 'Yeah, but they're doing it to everybody.' As if this somehow justifies it. That is part of the issue right now.

Now one of the good things about the fact that this recession has been going on for so long is that the debate is not theoretical anymore. As I like to say, because it's going on so long, virtually every officeholder in America right now, except maybe for a few U.S. senators, has either been elected or gone through a reelection cycle in this new austerity. So there is no surprise about the platforms they've run on. There is no surprise about the debate that is going on. The only issue is whether you, as a constituency, have managed to get your voice into that debate. I say this because I was speaking before a group just last

week that was mostly Democrats in New York State and some of them were shocked at Andrew Cuomo's budget. I said, "How could you be shocked? He ran on this platform in November. He was just elected in November. He's doing what he said he was going to do. I don't understand how you could be shocked." If you look around the country, what you do see is a variety of responses. Illinois voted differently than New York, which voted differently than New Jersey, which voted differently than Connecticut. You see tax increases in some places. It is depressing that Illinois managed to increase its taxes by 66 percent and still did not cure its budget problems, which will tell you a little bit about what's going on there.

But we are having this debate around the country and that is, I guess, a clarifying fact. However, the problems are so deep that the solutions are not easy. I think that the average voter has trouble grasping this particular cycle versus other cycles. People ask me, 'Well, what's the solution going to be?' And I focus most of my expertise on state and local governments. We have 50 states. We have tens of thousands of governmental units. We have 15,000 school districts alone in the United States. There is not one solution. The states are going in very different directions and that includes the nature of the solutions. We are seeing everything from compromise to confrontation. There are quite a lot of places where there is in fact a spirit of compromise with this intractable problem of pensions and long-term benefits. We are seeing people negotiate their way through this. And then we are seeing confrontation. Yours is not a constituency that I think thrives on confrontation, but we're seeing both avenues around the country.

One of the things that I would point out is that it really is startling and gratifying when you see people say, 'Here is the spirit of compromise in which we are going to show you how we think we can save you money, as long as you treat us fairly.' And that is the thing that resonates around the country the most in my experience. I'll give you one example from New York. When Andrew Cuomo came into office he said that the government had to do something about its Medicaid program. It spends twice as much per capita as any Medicaid program in the country. Even *The New York Times*, in news stories now uses the adjective "bloated." They put bloated before Medicaid whenever they describe it. It just automatically goes in there and that's *The New York Times*.

So Andrew Cuomo said that something needed to be done about this. We talk about nonprofits not lobbying, well hospitals in New York have to be nonprofit. They are nonprofits. They are the most powerful lobbying group together with the public sector unions. I don't know what their lawyers are telling them, but believe me they are not telling them not to lobby. In fact, they have run the largest lobbying campaign in terms of dollars. Over in New York City, it was run by the public sector and the healthcare workers, together with the hospital union.

But anyway, Andrew Cuomo said that something needed to be done. Perhaps because they saw the way the vote went, the hospitals, the service providers, the clinic operators, the for-profit nursing home operators and the unions got together and came up with a plan to save \$2.7 billion dollars. They said, 'Oh yeah, by the way, we know we can do things better than the state. We can actually continue to deliver services and just do things better. And by the way, not all these services are necessary.' He did not, as far as I know, at least publicly, twist anybody's arm. Although privately, he twisted a lot of arms. But the point is that that is an approach that I think fits with the reality right now. It's very hard to simply say, 'don't take it away from me in these circumstances', since there are a lot of people who have a legitimate argument that they just don't have the resources right now.

In particular, I'll say that economists and macro economists are now talking about a very popular book by an economist named Tyler Cowen. Many of you may know him. The book is called *The Great Stagnation*. In this book, he talks about how the next 40 to 50 years will not be like the last 100 years, not because of any government failure, not because of any human failure, but because we went through an extraordinary period where great inventions like electricity and the steam engine essentially changed our lives and moved human lives, productivity and standards of living ahead at a pace that we've never seen

in history before. And we haven't done anything like that in the last 40 years, so we simply can't expect the same level of resources. Extremely controversial and interesting.

But the point is, maybe nobody is really completely to blame. About the budgets, yes, but maybe nobody's completely to blame about a certain limitation of resources. There is still a big debate about how we allocate or reallocate them. Maybe there is just a new reality. To give you an example, Tim (Delaney) talked about the complexity and the bureaucracy of contracting in so many places. Many reform governors immediately put together groups to say that not only do we have to do something to trim government, but we need to make it more efficient for people, for businesses and for people to do business in the state. The businesses and the chambers of commerce are all a part of this. They're saying, 'Look at all the ways you can not only make business easier in the state, but you could also make government cheaper in the state.' I think that the nonprofit community ought to be a part of that in places where that is going on. We should be pointing out not only how much we spend, but also how many people we employ. Why can't we have an efficient government for us, too, not just for small businesses, not just for property tax owners, and so forth?

So I think that there has to be a recognition of the limitation of resources and a new way forward, which just doesn't say, 'We're essential. Therefore, you can't hurt us.' Because for at least the next five to six years, there is a new reality out there. As the National Governors Association said, there is a "great reset" going on. We all have to participate in that and it's not going to be easy. Thank you very much.

**WILLIAM SCHAMBRA:** Great. Thank you all very much. So Tim, I assume that your response to that would be, absolutely not, no cooperation with the folks who are trying to cut the nonprofit budgets. Fight them tooth and nail from the get-go. Is that a fair assessment of your platform? [LAUGHTER]

**TIM DELANEY:** No. Actually we are advocating. And I'm glad that Steve raised streamlining commissions, because I'm really proud of the fact that the special report that we issued at the same time that the Urban Institute issued its report on government contracting, called for the establishment of these streamlining commissions to say that we can do it better. But nonprofits need to be at the table. That's happened in Texas, in Illinois, in Connecticut and in New York. It's happened in a variety of places where nonprofits have actually been part of the driving force to say that we need to do it better. But we need to be at the table as it is being done.

As long as I'm talking, I would also add that one of the things we need to be doing is calling attention to some of the games that are being played. One of the significant games that is being played is that we are having a lot of governors wave around sheets of paper saying, 'We need to cut corporate taxes so that we can create new jobs here.' Sounds great, doesn't it? But then you look at the fact that corporations are sitting on huge amounts of money that they're not investing in jobs right now. Also, as they're waving this over here, they are then holding down here in their left hand that they're also then slashing programs and services for the poor and the needy. So there's a misdirection game as they're talking about this. They're talking about \$1.8 billion dollar corporate tax benefits in Michigan, but at the same time they're cutting \$1.8 billion dollars in nonprofit and human services. It is a disconnect. Why can't we put everything on the table, look at it collectively and bring everybody to the table?

**STEVE MALANGA:** I would say a couple of things. We have an extremely inefficient tax system for both companies and individuals in this country and the states reflect that. There is a lot about it that is misleading. On the issue of corporate profits, they went up 29 percent last year, according to the U.S. Bureau of Economic Analysis (BEA). Why? Because they're not hiring. Do we force people to hire? No, obviously. They have great questions about a double dip. However, the BEA press release also pointed out that corporate tax collections went up 64 percent last year. So GE isn't paying taxes, but somebody is paying corporate taxes.

Our problem with our tax system, both individually and corporately, is that it is extremely inefficient because it is extremely unfair. It is filled with loopholes, so that some people do pay and a lot of other people do not pay. I would think that a part of the “great reset” would be to make our tax codes fairer by eliminating a lot of loopholes. I wrote about the tax extender bill in December that had 130 tax credits in it of different sorts. There were tax credits for everything from ethanol to if you’re a schoolteacher and you buy supplies out of your own pocket. So we need to make our tax code fairer, because that makes it more economically efficient, less game-able. Then when it’s fairer it will be easier to judge who is not paying enough and who is paying too much. Right now, it’s a mess.

Mostly I would say of nonprofits in other sectors, not human services, our universities in particular, people are getting a really sour feeling about the way in which the tax code operates with some of our tax deductions for nonprofits. And everybody gets put into the same barrel there. It’s another reason, I think, to have reform. You mentioned GE. You know the story of the 1986 tax reform. It was not only personal income tax but corporate income tax. One of the reasons for it was because Ronald Reagan heard that GE was paying no taxes in the mid-’80s. He used to be a spokesman for GE, so he asked how this could be happening. So we flattened out our corporate and our personal income taxes back then. Then in the last 25 years, we’ve added back all the loopholes. And everybody has a reason, because everybody has a favorite tax deduction. I think it’s extremely inefficient economically.

EUGENE STEUERLE: I actually was economic coordinator of the Treasury study in ’84 that led to the Tax Reform Act of 1986. I also testified before the debt commission for two hours on tax expenditures, which partly led to their deciding to really go after them in a major way. The only thing I would say about a lot of these tax issues is that I think that they are really complex. My own view and, I don’t want to go off on a tangent here, is that probably higher income people do pay too little tax because they basically can avoid it. However, I don’t think that the solution comes easily through the current tax code. For instance, I think it’s very hard for states to collect corporate taxes. I think it often doesn’t make that much sense at the state level. It makes more sense at the Federal level because of the game playing and the ability to shift across borders. So some of these issues get very complex about how you might solve them.

WILLIAM SCHAMBRA: Ms. Allen, let me ask you a question and ask you to speak to this issue from the perspective of a foundation. The Foundation for the Mid South, as you pointed out, services an area of the United States that has earned something of a reputation for not having the highest level of services in the country. What do you see? I assume nonprofits are coming to you with the problems Tim described. Is the Foundation for the Mid South planning on involving itself in this issue of budget cuts at the state and local level? And if that’s an uncomfortable question or an irrelevant question, how would you speak to your fellow foundation CEOs about that issue? Is there a strategy you would suggest that addresses the kinds of issues that we’ve heard laid out here?

IVYE ALLEN: It is a challenge for nonprofit organizations that are affected by the budget cuts. One of the things that we found, though, is that there are not a significant number of organizations that really go through working with the states’ Department of Health and Human Services. There are some in particular, perhaps in childcare and other things like that, where they are impacted by the state as to when they receive their resources. But most of the money comes from federal government for the groups there. So we do have it where there are some groups who are struggling from a budgetary perspective and we do try to help where we can.

For us it is about general support, as opposed to making up for the shortfall and being able to address it. From a budgetary perspective, we do sit and monitor the state. We talk to our various state representatives, but we don’t see our role as simply making up that backdrop of where the shortfall comes about. As I said earlier, our role is really, how do we work together, because there is a limited set of

resources there. Not only my institution, but other foundations down there as well all have very small budgets as to what we can do. We cannot make up every shortfall, so we have to figure out how to work together. And you'll find that in not only from my institution, but other foundations in the region as well.

TIM DELANEY: I was just going to offer that I think it's important for us all to recognize how this has a major ripple effect on other nonprofits. I've just talked about her foundation and that they will give to the nonprofits that have been doing the human services contracting and other things for the government. And when the government is not paying its fair share, is not paying on time, is otherwise creating havoc, then her organization starts paying them more. They may have, in the past, also been providing funding for civil rights and for the environment and for the arts, and other noble and great causes. But because of the great human needs, then the arts suffer and civil rights suffer and the environmental groups suffer because of this demand. So that is why we really all have a vested interest in making sure that the system is fixed. And the only way for that to happen is for us to all pull up a chair to the table and say, 'We're here. We're a part of the community. We're part of the solution. We're in this together.' I couldn't echo more strongly the great wisdom from Gene (Steuerle) about us all being in this together. We've all got to do our fair share to fix the problem.

EUGENE STEUERLE: So could I pose a question? We always talk about the nonprofit sector or charities. However, the nonprofit sector is as diverse as the profit-making sector or any other sector. I mean, it's huge. And there are parts of the nonprofit sector that work well and there are parts that work badly. There are parts that really need the special breaks they get. There are some that don't. There is a difference between the \$600,000-a-year orthopedic surgeon who complains because he or she only gets three or four hundred thousand dollars a year when they get subsidized by Medicaid, vis-à-vis the person working in the food bank as a volunteer and just wants the money to cover the cost of the food.

So we are in it together, but I think it might be a mistake to think about the nonprofit sector going in with one unified voice. I don't know if that is possible. What are the right ways we should be organizing to address this issue, given our diversity, and given the fact that we may have differences among ourselves as well?

WILLIAM SCHAMBRA: Tim, do you have a --

TIM DELANEY: I was hoping that was a question for the audience.

WILLIAM SCHAMBRA: I assume your answer is, just become members of your organization and you'll solve that problem for them. Right? [LAUGHTER]

TIM DELANEY: I was actually going to try to close by thanking the Hudson Institute for bringing disparate views together and now I also have to add my thanks for the idea there. And that's the plug to make sure that we have more voices at the table. But in all seriousness, Gene raises a very significant issue. What are nonprofits in the classic sense? What are the new ideas or schemes that various lawyers have come up with to try to game the system?

So I think that means that we need to come together and sit at the common table. One way to do that is to join your state association. This way you can make sure that your voices are heard at a local level. What is a large nonprofit in Montana or Arkansas may be a relatively small one in New York City. So these also have to be viewed and discussed at the state and local levels and not just at the federal level, because there is not one size fits all.

IVYE ALLEN: I just want to add to that something that we have seen. He's correct that nonprofits are not all the same. We are also a member of the statewide associations for each of the three states. And I don't

think you can come in as one monolithic group, but you can come in with an understanding of what the needs are for each particular group. So then you know how to be respectful of what the issues are for a particular sector. I have seen it to where groups don't come in as one, but there are some common themes that affect all of them and that is where we've particularly seen our statewide associations as being effective.

STEVEN MALANGA: I do think that human service organizations do have the most trouble being commonly represented. It's not that the higher education institutions and hospitals don't deserve representation, but I think we need to especially think about how to make sure that human services organizations are represented.

WILLIAM SCHAMBRA: But Steve, your point would be, would it not, that at least in the setting of New York City, the human service organizations are, if anything, over-represented in the political picture of the city, and possibly in other urban areas as well.

STEVEN MALANGA: I would say that the hospitals probably are the most powerful voice. The thing that is distinctive in New York City is that you have an unusual number of people who, in the past, ran human services organizations and then ran for office. So maybe a third of the people on the city council actually came out of that and reflect that, for better or for worse. Again, sometimes when you directly get involved in politics like that it becomes for the worse. Then again, we talk about social entrepreneurship and you can talk about that both ways also because sometimes social entrepreneurship simply means, there's an opportunity, let's go get it. We see this in charter schools right now. The bottom third of charter schools aren't doing so good, because everybody thinks that they can raise money for charter schools right now. Not necessarily, so that is a problem.

In New York City, where you have a culture where the council actually has money to give out, we've had these scandals where they've just used earmarks to give out money to nonprofits that weren't really performing anything, including a scientology nonprofit that was getting government money to cleanse people who went through 9/11. So that is a problem.

But the irony is that if you go back to our notion of what the word "charity" is, it's the organizations that do what we now say are human services. The problem is that a lot of the controversy about the nonprofit sector and tax breaks right now actually has to do with hospitals and with higher education, which is not in that classic definition. I do think that they have their batteries of lawyers and they are being extremely sophisticated about the system and that is turning a lot of people off. So I don't know what the word is, we use the word "human services", but they actually are traditional charities in a way. But there has got to be a phrase in there that distinguishes them, because there is a certain pushback on the tax issues and on the lobbying issues. And it is coming because of these much larger, more powerful nonprofits in our society.

WILLIAM SCHAMBRA: Good. Turning to the audience, I see that Mr. Cohen would like to ask a question.

RICK COHEN: Thank you. I'm a little stumped by the conversation in a particular way, because you're talking about trying to solve a problem that is both short-term, medium-term, and long-term at the same time. So it's particularly complex. When I hear discussions about streamlining, that's a long-term issue. Tax changes in terms of making the tax system more efficient, even more complex. And we have an environment now where the deficits that we're facing have been deflected somewhat because of the stimulus money to the states. Now we've lost this stream of money, plus many nonprofits were receiving direct stimulus money through programs, so they get a double hit where they lose the money that was available through state agencies and they lose the money they were getting directly from the stimulus as well.

So even if we think about the long-term solutions, what are the shorter-term solutions that you would recommend that people go for given the dimension of the problem you just described? And if these solutions aren't found, how does nonprofit sector get reshaped or restructured? What does the nonprofit sector look like? How does it get reshaped? How does it get restructured as a result of our failure not to deal successfully with the problem?

STEVEN MALANGA: I don't think there are easy answers at all, short-term, for anybody. Because again, a lot of these deficits are locked in place unless we have tremendous concessions. I think it was the Urban Institute's study maybe that broke it down to eight sectors in terms of how people deliver services. It's arbitrary, but I think that governments needs to start asking the question, what are the priorities in terms of the kind of services that we have to fund, as opposed to, the kind of services that we would like to fund. The kind of services that keep people afloat versus the kind of services that might have a long-term impact on their lives. Maybe that is the way they start asking questions. But I think that that's probably, over the next five years, how it gets restructured in so far as people begin to ask the question, 'Well, what are the services that we absolutely have to have right now because they are keeping people afloat? And what suffers perhaps are the programs that are trying to invest for the long-term. When I saw that list, that was the first thing that came to my mind. So that's sort of just one quick idea that comes out of this.

EUGENE STEUERLE: I don't know whether it entirely goes against it. I mean, there are investments and then there are efficient investments. I think a fair amount of literature now says, for instance, that if our issue is children, the earlier we can interact with them, the more powerful our interventions. And that's true whether we're spending more money or less money. That actually says, if I'm in a period of cutback, let's not cut back on the nurse's help for the pregnant women, which has been through various studies shown to be a fairly effective device. My own belief is that I think the children's budget is much more of an investment budget than a lot of other parts of the budget. So I actually would push there.

Although to some extent now, I'm talking about what government does and how government allocates its resources, as opposed to part of your question which was, what can the nonprofit sector do in terms of advocacy. I would love it if parts of the nonprofit sector would start differentiating a little more as to what they value most, both for the resources that come through them, which, by the way, I include health and higher education, versus the resources that go for other purposes. But I don't think there's an easy answer to your question. As an economist, I'd say let's really dig in and try to make choices along some reasonable social cost/benefit analysis of what really gives us the most bang for the buck, right from the start.

WILLIAM SCHAMBRA: It's your point, Gene (Steuerle), about having the nonprofits themselves begin to talk about what works and what doesn't, and within their sector. We haven't heard much about that. I mean, the voice is fairly, at this point, non-discriminating. It is, you can't fight, you can't cut back these services because they're essential for various reasons. But isn't there a voice in the nonprofit sector that says, 'Okay, we will come to the table and we will agree that there are a couple of billion dollars in the way we do this right now that we could save if we did it a certain way.' Can't we get more of that from the nonprofit sector? Can't foundations be helpful in that? In other words, not the, don't cut anything voice, but the, all right, it's time for us to join with the others and say that some of these programs haven't worked very well, and we should back off.

IVYE ALLEN: From a foundation perspective, I think they do it every day. With their limited resources, their choice is being made. Now when you're asking a nonprofit group, somebody that's serving the elderly versus somebody that's serving the child, you're never going to get them to sit and say, 'Well, I'm going to forego the elderly services because we now need to focus on the child.' So from a nonprofit

perspective, each group that is out there very much believes that his or her passion is what they're serving. They believe in it and they're fighting for it.

But from a foundation perspective, where you have limited resources, you can't have every issue as your priority. That doesn't mean that some things are not good. But it also happens when you see foundations not able to give resources. It's not meant to be that way; it's just about limited resources and where do we see that we can move the needle. And therefore, those are the things that we are going to focus on.

You do have foundations working a little bit closer together, collaborating and pooling their resources to really try to see a difference. I think you've seen that a lot more over the last five or ten years than what you saw earlier. So I think indirectly, they do do it every day.

STEVEN MALANGA: Can I ask a follow-up with respect to that, and that is to reverse this process. Is there anything that government can learn from the way foundations have to make their choices, because they all have to make those choices? Is there a way of starting this conversation or is that just a naïve assumption?

WILLIAM SCHAMBRA: No, that's a terrific [OVERLAPPING VOICES].

IVYE ALLEN: I think it's a good question. With foundations, I think some of it may even be that they believe some things should be left to the government. That may be why they're making a choice about it. So it's not always that it's not worth doing; it's just with limited resources – here's what we can do. But again, when government serves all the people, it's very difficult to make those choices and decide which ones are more important than the others.

I think that a host of things that go into the process. Government can sit every day and ask how it can be more efficient with the resources that it distributes. In fairness to them, they probably think that they are. It's just the different groups that disagree with them as to what they set as the priorities. But I think that we often times disagree with the things that they decide should and should not be supported. And that's where you see foundations trying to come in at and make up the difference.

EUGENE STEUERLE: Can I just add a footnote here, which is that the nonprofit sector has a great deal of trouble with issues like mergers and acquisitions, because we don't have a capital market that facilitates it. I really wonder if in a time of recession, there's not some way to try to think about encouraging this, or maybe foundations have to help play this role. It may take an extra intermediary to actually figure out some way to help facilitate those combinations, divestitures, whatever they are, that also occur within the private markets, particularly in the bad times as ways that they adjust.

TIM DELANEY: If I could get back to Rick's (Cohen) original question, I think it's important for us to focus on some of the data from the Urban Institute that showed us that 42 percent, almost half of all human service nonprofits in 2009, ran deficits. That was in 2009, and 2010 was even worse. And that is just the human services that were getting some extra money from foundations and other enlightened people who wanted to make sure that basic human needs were being met. It's far worse in the arts. It's far worse with other nonprofits.

To your question, what should be done, I think we're all familiar with the game Whack-A-Mole, where a mole will come up and you then try to bat it down. Right now, we have four moles that are popping up all simultaneously. We have the withholding of payments. That is a problem that's been around for ages. It's getting much more pronounced now, but nothing overnight is really going to solve that problem. That's a long-term and medium-term issue.

We then have governments trying to take money from nonprofits through new taxes and fees. That is a serious problem and it needs to be addressed on a short-term basis. That is where the National Council of Nonprofits is working through our state association network, trying to get resources out to the various states as those are popping up. The third is, to me, the greatest threat and the most immediate. That is governments right now, at the state level, abandoning these public programs. When I'm being told, 'Thank god you're out there', I then grab the senate president and pulled him aside out in the hall and said, "Do you understand what you're saying? Has anyone thought through that when you stop funding these basic programs that then it's all going to fall on the backs of nonprofits and we don't have the ability to handle it." He said, "Tim, you just heard a lot of political speak up there. We can't talk about the fact that we are having to abandon these programs. We don't want to raise taxes. We're all afraid of that. So we're running away from it. So we've got to simply keep it all very nice, and that's, thank god you all are out there." Well folks, that is where we've got to be raising our voices now and saying, 'stop all the cuts.' 'Stop all the problems that you're creating.' Because people died in Arizona. People will be dying elsewhere. It's time to raise our voices.

PABLO EISENBERG: I'm Pablo Eisenberg from the Georgetown Public Policy Institute. It is easy to bash government and I agree with Tim that the state and local governments, not to mention federal government, are currently using inappropriate actions to address their budget crises. But I also think that we have to ask the question, where are the weaknesses and the lack of leadership in the nonprofit sector?

WILLIAM SCHAMBRA: Present company excepted, of course. [LAUGHTER]

PABLO EISENBERG: Tim raised the problem that the nonprofit sector hasn't taken advantage of its legal capacity to lobby and that is quite true. The problem is also that the nonprofit sector is composed largely of one issue groups, such as health, so they do not have a broad agenda. So there are a lot of issues, such finances, taxes, the economy, that are so important, the nonprofit sector has been mild at best, almost speechless at times.

Also we have hospitals and universities that have 50 percent of the wealth and income of the nonprofit sector and the nonprofit sector is not holding them accountable. There is very little oversight. There is also no pressure on the foundations that have not helped nonprofits meet the current pressing needs

TIM DELANEY: Pablo actually raises a lot of very important points and I salute him for raising them. I also look forward to the time when I am at Georgetown in a nice lofty nonprofit where I'm comfortable and can lob some bombs. Again, in all seriousness, he raises very important questions. I will confess that I somewhat sidestepped things getting back to Rick's (Cohen) questions originally, because Bill (Schambra) had really teed something up quite nicely and I wanted to get back to Rick's comment. And that is, I think that Bill's earlier questions just before last really went to what can foundations can be doing in terms of government. I think that it presumed that the foundations are neutral. And I believe that oftentimes when foundations, again present company excluded, enter the room, that they have their own agenda that they run, and that while they find comfort in being a 501(c)(3), they are not the same as nonprofits in terms of the charitable aspect, but simply the private foundation aspect. There is an awful lot of the agenda that gets controlled, so that they can be protecting their turf and advancing their agendas as opposed to the smaller nonprofits where voices are often drowned out and not considered. And that's where we are building traction and trying to get more oomph within our organization, not solely to challenge foundations, but to have a greater voice for nonprofits across the nation so that people can control their own destinies by using their own voices in their own localities and in their own states. That is really where our focus has been.

EUGENE STEUERLE: So Pablo, you may remember, but I wrote a piece for the New York Regional Association of Grantmakers on why foundations had so little effect on policy. And it largely related to a

lot of things I've learned from Rick Cohen, among others, when he was undertaking some of these studies on when have foundations been successful and not successful in this area. It went to all sorts of issues, such as the way they were organized, size, bureaucracy and the difficulties of dealing with the board. I mean, maybe it's not entirely related to this, but why foundations were not there when the market was falling apart? Well, it's because it was a heavily complex regulatory issue, and it's a hard thing to discuss with a president and a board. Why haven't they been there and still not there in my field? Why aren't they there on the big budget issues? It's because, at some level, if you're the foundation officer dealing with child development, it's hard to decide that you are going to give a grant that is going to deal with big budget issues. And I'm guessing the same thing applies if you're an officer sitting there and somebody says, 'Well, I want you to deal with sort of resolving the issues of the foundation sector.' It's often not on the agenda.

I'd be glad to share that article with anybody if they want it<sup>2</sup>. I don't have a simple answer other than hoping that we get the right leaders to actually do it. I don't think it's the type of thing that can easily be forced on the foundation community.

CHARLES PERRY: Charles Perry, Center of Neighborhood Enterprise and PERICO Institute for Youth Development. I feel that we are letting corporations off the hook. It seems like most of the conversation has been geared to fiscal policy and the dependence on the government for nonprofit survival, when I think that the percentages you gave of taxes collected versus expenditures for citizens, I think corporations get more from communities than they give back. And I think that's where we need to spend a lot of attention, and that is sensitizing corporations, particularly those who are traded on the stock market, to give back to the consumers that are really buying their product in the various communities throughout the United States. So how then do we sensitize corporations to come to the aid of nonprofits?

WILLIAM SCHAMBRA: Thoughts on that? Are you suggesting that corporations should pay, should be taxed more heavily? Is that the idea? Or that they should be --

CHARLES PERRY: I'm suggesting that corporations open up their coffers a little bit more to philanthropy.

WILLIAM SCHAMBRA: Corporations, of course, are even a smaller piece of the philanthropic endeavor than private foundations. Those of you who remember President Reagan's Task Force for Private Sector Initiatives, there was a great deal of focus on getting corporations to do more. There was talk about replicating the 5 percent club of the Minneapolis foundations and whatnot. So is there anything one can do by asking corporations to be more generous in this situation?

TIM DELANEY: In for a pound. Corporate giving had been about 2 percent or just slightly beneath 2 percent for a long time. Then it started dipping. Now in the recession, it's fallen off quite a bit. Corporations are now talking about, 'Gee, why don't we measure how much our volunteers are giving?' 'Let's measure how much we're giving through excess goods that we can't sell, and that are just taking up space in our warehouse. Let's give that away so we can get credit for it.' So even where it's coming back from below zero, to now coming up some, it's not really the hard cash that is needed.

A lot of it is attempts to then import their wisdom to say, this is how we do it in the corporate sector; we want you to start counting widgets the same way. I actually am someone who spent time in the private sector, in the government sector, and now in the nonprofit sector. I think that there's a great deal that we can learn from cross-sector learning. But I think what it is going to take is, just as Bill Gates and Warren

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<sup>2</sup> <http://www.urban.org/publications/901307.html>

Buffet and others have stepped forward to say, is that we need to create a legacy of giving by individuals. It's going to take some very prominent business leaders to have the welfare of the country in mind. And maybe they won't have the courage to join 5 percent club. We call it the 4 percent club, but we are hereby dedicating ourselves to making sure that that's how much we're going to be giving to the community in hard dollars that can make a difference, as opposed to, give us credit. In fact, there have been attempts to try to get tax credits for their volunteer time that they are then contributing and I think that that further mucks up the whole tax code personally. I'm not speaking for my organization now, but I just think that that's dangerous. We need to have some courage stepping forward.

I would encourage the corporate leaders in America to read Robert Reich's book, *Aftershock*, to look at the disparity in wealth. I fear that with the cuts that are about to occur, as governments are abandoning these social programs in the late spring and summer, that things will heat up in August and September temperature-wise and services are not available, we will be seeing some things that we don't want to see in America. And I hope it doesn't come to that, but the disparity is so huge, the need is so great, and the cuts are so vicious, that it may be a recipe for really bad times. I think we need to have some corporate leaders step up and say, not on my watch, not in my country. We will make a difference.

EUGENE STEUERLE: As an economist, I think of incentives. And the question is, who is going to provide those incentives? I don't think it's necessarily going to be extra tax incentives. I think the bottom line is going to be, at one level, shaming those leaders, including corporate leaders or corporations that don't do certain things. The right type of organization might put out a list of the most successful and the least successful. I'd love to enhance organizations like NCRP and the Better Business Bureau, who would actually go out into the communities.

And by the way, when corporations and individuals claim to be doing things, you and I know that it's just a penny on a dollar. They claim to do a lot or they pretend to be raising money or giving money to charity, but it's a pittance. However nobody really measures them. So to put out information systems that both cajole corporations to get engaged, but also perhaps shame some of them for not being engaged already. That is what, very indirectly, Bill Gates and Warren Buffet did. They didn't say, you're wrong if you don't join us, but there was a little hint at that.

WILLIAM SCHAMBRA: Steve, did you want to defend the plutocratic oppressors of the masses here? Is there anything to be said for corporations positively? Or are they just --

STEVEN MALANGA: Well, no, actually, from my years of actually covering them and writing about them, I found that corporations, when it came to charity, were very transactional. So even when they were giving, they were giving for what was hot. I actually had someone say back in the late '80s that, "We're not giving to housing this year, because everyone's giving to AIDS." I mean, that is the level that it's on.

I think more in terms of individual wealth. I think in terms of people doing what Buffet and Gates are doing, which has more to do with their individual wealth. There the emphasis is on how much should you pass onto your kids. I really believe in cultural changes, so that there are different kinds of incentives. We can change the culture so that more people do that. But corporations are so bureaucratic that even when they start giving more, they just give more to what's hot.

WILLIAM SCHAMBRA: We're just about out of time. So Ivey, do you want to start us off with some final comments?

IVYE ALLEN: I think it's fair to say that as I was listening to questions, particularly to Pablo's (Eisenberg) comment on foundations, that just as we said the nonprofit sector is not monolithic, neither is the foundation community. Everybody is about doing some aspect of charity. That is why they formed.

But they do have their sets of priorities. You have boards who want to see certain things done and you have program officers who have things that they believe in. That's what they're hired to do. So you also have a lot of layers within foundations that are trying to address particular things as well. That doesn't mean that you can't come together and ask how can we all collaborate or work more effectively. And I think they do try to do that.

However, I think that just as we raised the question about corporations, we raised the question about government, we raised the question about different types of nonprofits, foundations, all of these are in that same situation where there is no monolithic group in any of these sectors. But there are probably things that all of us can find common links in and that is what we can rally around. Although Ford is not going to give up what it believes in because Gates has his agenda. And so, you're looking for that. And even as smaller level institutions like ourselves, there are things we believe in that really make a difference in what moves the needle to where we are. So I think you can definitely have institutions where they find levels of partnership.

WILLIAM SCHAMBRA: Any last thoughts from the panel?

TIM DELANEY: Certainly join your state association. But I would just like to conclude by encouraging everyone to use their first amendment rights. It's your civic duty to speak up when you think that things can be done better. And I want to give my final thought, which is, thank you to the Hudson Institute and Bradley Center for bringing us together to talk about these issues. Bill (Schambra) has always impressed me as a thoughtful person who likes to kick around ideas and I salute him for bringing this together. I also want to thank *The Nonprofit Quarterly* for their leadership on this issue and encourage everyone to sign up for their free newswire daily reports.

WILLIAM SCHAMBRA: Let's give our panel a round of applause.