

## Charities and Relief The Problem of Selection

C. Eugene Steuerle

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[1] In the wake of September 11, 2001, the goodwill and charitable impulses of millions of Americans were stirred. They responded with an outpouring of support, not the least of which has been a reported contribution of more than \$1 billion to U.S. charities. Since that time a number of controversies have arisen and have gained more attention from day to day. Conflicts -- such as that between the board of the American Red Cross and its former President, Bernadette Healy -- often get much play. But what has not been given much attention is the nature of the dilemma that charities face, and what principles charities need to apply to deal with this type of outpouring of support. After all, this was not the first nor will it be the last time that individuals seek to respond to some new disaster or crisis.

[2] Let's begin with the nature of the dilemma, which goes to the very structure of the charitable sector. Despite the generosity of Americans -- giving in the U.S. represents a much higher proportion of income than in all or almost all other countries -- most of the needs of individuals are not met through transfers made through this sector. Giving averages about 2 percent of income and has remained at that level for a long time. By contrast, social welfare expenditures financed through government taxes are on the order of magnitude of about 20 percent of income. Similarly, the \$1 billion plus in contributions in response to the crisis of September 11 can be contrasted with the federal government's pledge of tens of billions of dollars in disaster relief, not to mention what will amount to hundreds of billions of dollars for a combination of stimulus package, defense expenditures, and internal security measures. The pattern is familiar: More resources come from enforced taxation, than from voluntary giving. If we take into account volunteers, the differential is lessened but not removed.

[3] Note that I am not trying to "rank" sectors of the economy. The differentials noted above are lessened if one takes into account voluntary labor. The charitable sector can often be more innovative. The resources of the charitable sector look much larger if we count fees charged to the government and individuals.

[4] None of these caveats, however, changes the traditional limitation on resources and the charity's usual requirement to be selective in how it uses them. In general, the needs are so great that charities often confine themselves to a narrow mission, defined either in terms of goals or constituencies served. A soup kitchen may serve one area of the city, a community development corporation may try to build a few housing units for low-income individuals, a prison ministry may try to serve a few individuals. Smaller charitable institutions will often develop only limited criteria for selecting beneficiaries. Sometimes they simply will operate on a first-come, first-served basis.

[5] For larger and wealthier institutions, the selection process usually becomes more formal. Ivy League universities will support only a very small group of individuals, using admissions committees to select out more people than they select in. A museum will invite in almost anyone until it reaches overcapacity; after that, it will select by raising admissions prices, by offering invited showings to particular groups and benefactors, and often by setting up a first-come, first-served procedure, which may require advanced reservations.

[6] Now in truth, charities are no different than the rest of us: They enjoy helping others but do not enjoy selecting people out. Given their dependence on donations, moreover, they especially do not want to air in the public some of the dilemmas they face in having to exclude people. Arbitrariness is often required simply to get the job done efficiently. Charities, moreover, do not keep nor have access to elaborate records on individuals by which to make assessments. They may ask for information to be volunteered -- for example, so

they can charge dues by income level -- but this is an elusive practice. They do not have the power of government to enforce much of anything, and even if they did, they do not have the necessary information systems to figure out on whom to apply the enforcement. Much depends on the goodwill of both those who serve and those who are served.

[7] There is little doubt that among beneficiaries, luck can make a difference. Those who happen to live near the food distribution point, have the right friend to figure out application procedures, hear about the availability of services through word of mouth, or appear more sympathetic are likely to be better served than others of equal merit.

[8] When needs are large relative to contributions, and continue over time, much of this does not matter, and selection processes are less likely to be scrutinized by outsiders. Who would criticize a food bank that only served some of the hungry? Or protest if some near-poor received housing assistance when others more poor did not? Even when larger amounts are raised, but they are still small relative to the purpose at hand, the potential criticism is muted. We might suggest that more individuals could be served, as in the case of wealthy educational institutions or hospitals, but the need still would far exceed the resources.

[9] When contributions are large and the need is defined by a specific incident at a specific point in time, the old rules do not apply so easily. These conditions raise to a much higher level the selection problem for the charities. Whether they like it or not, they essentially are compelled to operate more like the government when it distributes its much larger social welfare budget. While this also means that controversy is almost inevitable, it does not mean that there are no principles to be applied. There are lessons that can be learned from government experience in this area, and it is to these that we turn next.

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