

Congress Targets Philanthropy

New evidence on the benefits of foundation giving.

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Like divining rods, Members of Congress are always alert to fresh sources of money, which once discovered they will spend. California Democratic Congressman Xavier Becerra thinks he's discovered a new source of political treasure: the money inside private and community foundations.

The tax exemption foundations enjoy, says Mr. Becerra, is a "\$32 billion earmark." As he explains: "I have an obligation to make sure that those \$32 billion that would have gone to the federal government are used for a . . . public good."

This sounds like political intimidation. Unless the foundations reprogram money in the direction of Mr. Becerra's preferences, he'll start proceedings to dismantle their tax exemption.

Mr. Becerra and his allies, however, may want to think twice about whacking foundations. A study out this month suggests that foundations spread economic benefits more broadly through society than had been previously imagined. The research was commissioned by a new organization called the Philanthropic Collaborative and was conducted by Robert Shapiro, President Clinton's under secretary of commerce for economic affairs, and Aparna Mathur, a fellow at the American Enterprise Institute. The Washington-based group's goal is to persuade policy makers of the benefits of philanthropic dollars flowing to communities across the country.

For the \$43 billion that foundations spent on grants in 2007, they created direct economic benefits of \$368 billion. Those nonprofits that consistently outperform government programs have been saving taxpayers a bundle. Foundation dollars spent on home care for the elderly reduce the need for costlier hospital visits. Money spent on job-training programs reduces unemployment rolls. And foundation-sponsored prison re-entry programs lower recidivism rates, saving the state the cost of another incarceration.

Broken into 11 categories by Mr. Shapiro and Ms. Mathur, foundations offered \$10 billion to support health-related programs, which yielded \$75 billion in benefits. Some \$10 billion for education programs produced \$49 billion in benefits, and \$6 billion for human-services programs produced \$65 billion in benefits.

The study also posits that the productive jobs that result from foundation programs in turn produce revenue flows for the government. The former prisoner who lands a job, for instance, pays income and sales taxes. In all, state, local and federal governments can thank foundations for putting some \$145 billion in tax dollars into their coffers last year.

To be sure, studies of extended economic effects are subject to criticism, but at the least Mr. Becerra's notion of a foundation tax "earmark" of \$32 billion is surely dwarfed by the revenue generated by the universe of foundation-created economic activity.

Our own policy preference would be to eliminate most charitable deductions in return for a simpler, flatter tax system. Also eliminate the estate tax, a primary source of distorted tax behavior, and surely charitable giving would continue even with fewer foundations. Americans gave money to charity before the tax deduction existed, and we're confident they'd continue to do so. We also wish foundations had to give away all of their money over a fixed period of time, so they couldn't be captured by interests that don't agree with a donor's intent.

Of course, Mr. Becerra is threatening the charitable exemption mainly to force foundations to redirect donations toward causes he favors. At the Council on Foundations annual meeting earlier this year he complained in particular about the lack of grants to racial minorities. "We're not trying to mandate something," he told the audience about his colleagues' foundation plans in Congress, but "we will, if you don't act."

When a fellow panelist suggested that greater diversity in philanthropic giving could be achieved voluntarily without regulation, Mr. Becerra responded that at one time "South Africa said it would voluntarily change . . . its apartheid regime."

In a recent interview, Mr. Becerra told us the whole idea of donor intent is a "convenient excuse" used by philanthropists, like saying "the devil made me do it." The returns reflected in Philanthropic Collaborative's study suggest it's time to give the devil his due.