

CAPITAL COMMENTARY

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The Charity Sector Isn't Full of Enrons!

Sparked by a number of high-profile scandals and misjudgments by a few big nonprofit groups, Sen. Charles Grassley (R-Iowa) and the Senate Finance Committee last summer launched a sweeping campaign of charities oversight and reform. That campaign has recently picked up momentum. To be sure that reforms are appropriate, Sen. Grassley has sought input from the charitable sector, inviting recommendations from Independent Sector, the trade association for nonprofits. Clearly there are charity abuses that require action. However, despite the good intentions of the reformers, there is good reason to be worried that the charity reform juggernaut may harm as much as help.

For one thing, it isn't obvious that major new legislation or regulations are needed. An analysis by Gammon and Grange, a law firm that serves ministries, notes that virtually all of the problems discussed at the initial Finance Committee hearing last summer are already addressed by laws. What is needed is better enforcement, starting with increased resources so that the IRS can actually review the flood of documents it already receives from nonprofits.

Even more troubling are many signs that the reformers do not understand that the vast majority of charities do not come close to being as large and complex as the big nonprofits whose abuses triggered the effort. The consequence of the misunderstanding may be some truly harmful new rules.

As Dr. Bernard Fryshman, head of the Association of Advanced Rabbinical Schools, points out, most charities are very small, shaped by a strong mission and operated by a small, sacrificial staff and dedicated volunteers. In structure and operations these charities are little like a professionalized national nonprofit, and reforms that might be appropriate for the latter could be deadly for the former.

Consider the idea of increased transparency that is being promoted as a basic cure. Reformers, says Fryshman, want nonprofits to post on the Internet

complete details about their activities and supporters, enabling the public to help the IRS police rogue charities. But how will organizations that advocate politically incorrect causes survive if their donors and boards of directors have to be reported not only to the IRS but also to everyone with an Internet connection--including those who are inclined to harass groups they don't like?

Similarly troubling is the idea of requiring nonprofits to gain accreditation by conforming to accepted governance standards and best practices. To be sure, greater attention by large and small charities alike to ethical and operational guidelines would be a good outcome of Sen. Grassley's charity focus. But so-called best practices might not always be best. Why discourage a donor from giving generously to a charity that, while not optimally managed or particularly efficient, is the only one with the insight and heart to provide any kind of response at all to some particular problem?

Sen. Grassley and his colleagues did emphasize at the April 5th hearing their concern not to crush small organizations nor discourage donations. But those good sentiments are not enough. What is needed is to change the assumptions driving the reform process. The charity sector is not populated by nonprofit versions of Enron and Worldcom. It is not a universe of large organizations that requires fundamental governance reforms. Target instead actual abuses, emphasizing enforcement of existing laws. Don't add new regulations unless absolutely necessary. Broad brush reform will harm the real world of charitable service. Worse, over-regulation will result in less help for the people and causes that charities are dedicated to serve.

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