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Government Should Regulate Charities?

It Just Ain't So!

Forbes magazine editor and columnist William Baldwin is upset that nonprofit charitable corporations are able to evade accountability, pay their executives too much, and engage in shady bookkeeping. He wants something done about it: "This country's several million nonprofits escape with only the sketchiest of oversight by the Internal Revenue Service. Revenue agents figure they would be wasting their time on an audit, since there's no tax money to be had. We could fix that." How?

Baldwin has a three-part plan. "First, make all nonprofits with $10 million in assets or revenues post financial statements on the Web. . . . Next, make all corporations pay the corporate income tax. . . . [Finally, limit] charitable tax deductions to assistance to the needy."

The first part is apparently intended as a matter of fairness. Business corporations have to make disclosures. So why not nonprofits? But the fairness issue cuts both ways. Why *should* businesses corporations be forced to disclose financial information? To assume that compulsory disclosure is necessary implies, paternalistically, that investors wouldn't demand pertinent information before risking their own money. Likewise, don't potential donors seek information from nonprofits before mailing their checks?

Apparently they do. A few seconds on the Internet are all it took to find three organizations that independently dispense information about charitable organizations: the American Institute for Philanthropy (www.charitywatch.org), the Better Business Bureau's Wise Giving Alliance (www.give.org), and the newest of the three, Charity Navigator (CN, www.charitynavigator.org).

According to the *Christian Science Monitor*, "Inspiration for CN came four years ago, after New Jersey businessman John Dugan learned that the donations he and his wife made to a New York charity mostly enriched those who ran the organization. . . . Not to be fooled again, Dugan started CN with $1.5 million—some of the wealth he reaped when PDI, a drug-marketing company he ran, went public in 1998."

CN has been rating 10,000 to 15,000 charities that solicit money through direct mail, telephone, the Internet, and special events. Almost 70 percent have earned three or more stars on a four-star scale. "When rating a nonprofit, CN examines the 990 IRS tax forms filed by nonprofits each year. It then compares those figures with charities involved in similar causes," the *Monitor* reports. On CN's home page you'll find, among other things, a link to "10 Charities with Extremely High Administrative Costs."

Clearly, information is available to those who want it. Government-mandated disclosure either would be redundant or, as with business corporations, would require reams of data that potential donors don't want. The bureaucrats' agendas and incentives don't necessarily line up with the needs of people making decisions about their own money. Who is likely to be a better judge of things?

Regarding his plan for taxing nonprofits, Baldwin elaborates: "No problem for a charity hospital or a struggling theater group—they run deficits and would owe nothing. But possibly Harvard University would have to cough up a few bucks." Yet as Roy Cordato pointed out in this space last month, corporations—whether for-profit or nonprofit—*can't* pay taxes. They can only *collect* them—although from whom in what proportion is not entirely clear. What would be the basis of a corporate tax on a *nonprofit* anyway? Baldwin is annoyed by big salaries paid to nonprofit executives, but has he forgotten that they pay the personal income tax? I don't mean to countenance that tax, but what's the case for yet another layer of taxation? Further, just as a tax on business corporations reduces investment and production by diverting money to government bureaucracies, so a tax on nonprofits would reduce charitable works by doing the same thing.

As for his proposal to restrict personal income-tax deductions to donations to the needy, Baldwin writes, "Such a rule would disqualify a large chunk of the $136 billion that taxpayers claimed on their 2002 returns. It wouldn't inhibit anybody's generosity to the Salvation Army. It would allow you a deduction for your donation to a scholarship fund but not for the money to build your alma mater a football stadium. Opera companies would be in real trouble."

Who Decides?

But why should the government, rather than individuals, decide who is needy and which causes are worthy? Baldwin's proposals are hardly fitting for a society ostensibly dedicated to maximum freedom and minimum government. It would be one thing to argue that the tax system should attempt neither to encourage nor discourage charitable giving. But Baldwin doesn't do that. Since he wants some kinds of giving encouraged and others discouraged, his plan is as manipulative as anyone's. Leaving people alone to make their own decisions isn't of interest to him.

Notice what happened. Baldwin began by charging that many charities are crooked or at least irresponsible. His call for mandatory disclosure, wrongheaded as it is, at least bears some relationship to that charge. But how would taxing nonprofits and donors to opera companies combat shadiness? These look more like ways to extract tax revenues from people who aren't paying as much as Baldwin thinks they should.

He says his tax proposals would make it worth the Internal Revenue Service's while to audit charitable organizations and catch the bad ones. But it would also harass legitimate ones, reducing their activities while extracting wealth from people who already pay too much in taxes. As we've seen, the voluntary sector provides watchdogs, so his rationale for expanded IRS powers is tissue-thin.

Needless to say, laws against theft and fraud should—and already do—apply to nonprofit organizations. If a charity solicits money for orphans and spends it on executive cruises to exotic places, the people responsible should be forced to make restitution. But apparently the well-established common law against taking money under false pretenses isn't good enough for Baldwin.

Permeating Baldwin's argument is a sense that government should have dibs on any wealth within its jurisdiction and that the burden of proving that a portion of that wealth should *not* be taxed belongs on those who produced it. Is Baldwin aware that the American Revolution was partly a tax rebellion?

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The Economic Fantasy of "Star Trek"

by P. Gardner Goldsmith

A friend of mine is an award-winning science-fiction novelist. When we first met, I happened to mention to him that I was working on a science-fantasy novel, just as he was. He bristled.

"I write science-*fiction*, not fantasy," he said. "Those two genres shouldn't even be in the same section at the bookstores."

It was an early lesson in the difference between those who write books that employ real science to drive the plot and those who create unrealistic worlds, even if those worlds conform to their own internal logic. I was not to encounter again the difference between science fiction and science fantasy until years later, while in the script department of one of the many "Star Trek" spinoffs.

Sitting in a "story pitch session" with one of the producers, I happened to offer a story outline that involved a *Sting*-like scheme by the main characters to retrieve a sizeable amount of stolen money. But as I told the story, the producer held up a hand and informed me that I needn't go any further.

Seeing my puzzled face, this warm and genuinely friendly person told me something I did not know.

"Gene," the producer said, referring to Gene Roddenberry, the creator of the series, "stipulated before he died that there was to be no money in the Federation."

I was still puzzled.

"No money?"

"Right. He believed that by the 23rd century, mankind would have evolved past the need for money."

I wondered if Roddenberry meant that mankind would develop some sort of bio-electronic monetary data system, something that would allow the characters to eschew paper money and walk freely, without bulky wallets and pocketbooks to get in their way on the transporter pads. That was, however, far from the case.

According to this producer, Roddenberry, who was known as the "Great Bird of the Galaxy," simply thought that humanism would strip mankind of the acquisitive tendencies it had shown throughout history, and that the use of money was a vice his utopian "Federation" would eliminate.

The producer looked at me and said, "It was one of the biggest mistakes he ever made. You have no idea how much of a headache that rule has been."

Given my background in economics, I actually had a pretty good idea.

Roddenberry's belief was nothing new. In his eyes, money was clearly a vestige of man's base past. It was a symbol of greed, a cause of war and hatred and anger and loss. The drive for it was something mankind needed to overcome, and in Roddenberry's pristine world of the future, man would rise above his dirty urges for riches and concentrate on more noble goals, like science,

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