

## Managing Charitable Giving in the Wake of Disaster

C. Eugene Steuerle

The tragic events of September 11 stirred the goodwill and charitable impulses of millions of Americans. Individuals from all segments of society responded with an outpouring of support, resulting in reported contributions of \$1.5 to \$2 billion to U.S. charities (The Chronicle of Philanthropy 2002; Renz 2002).

Since then, a number of controversies, such as the high-profile conflict between the board of the American Red Cross and its former president and CEO, Bernadine Healy, have surrounded the management of the funds. The unusual circumstances and the size of the contributions pool account for some of the disputes; the process of learning how to meet the enormous challenges posed by the events is clearly still in play. It is important, however, to cull

lessons from what's been accomplished so far and to apply them to how charities plan to raise, manage, and disburse funds in the case of future disasters.

This brief looks at the structure of the charitable sector and describes the unique challenges these organizations face in soliciting contributions, selecting beneficiaries, and distributing funds for wide-scale disaster relief.<sup>1</sup> It then outlines four classic principles of public finance that can be used to help set priorities (see box). While these principles do not always lead to definitive conclusions, they do offer useful guidelines for navigating the problems of disaster relief.

### Resources of the Charitable Sector

The charitable sector has a unique and prominent role in American society. Indeed, giving in the United States represents a relatively high proportion of income, with Americans, on average, giving about 2 percent of their income to charities, or a total of about \$203 billion (AAFRC Trust for Philanthropy 2001). In addition to providing valuable services, charitable giving allows Americans to support causes of their own choosing and to fund the organizations they care about most. The charitable sector can often be more flexible and innovative than the government sector, responding to crises quickly and encountering fewer administrative hurdles (Boris and Steuerle 1999).

These advantages make the charitable sector a valuable part of the social service safety net. Because of the limited size of the charitable sector, however, these organiza-

---

*As society comes to terms with the events of September 11, charities must devise new ways to plan for and distribute disaster relief.*

#### Public Finance Principles: A Framework for Charitable Relief

- **Progressivity or Vertical Equity.** Individuals with greater need (less means) should be assisted more (or pay less).
- **Equal Justice or Horizontal Equity.** Individuals in like circumstances should be treated equally.
- **Individual Equity.** Individuals are entitled to the rewards resulting from their own efforts and to determine how their property is used.
- **Efficiency.** Programs should aim to maximize net benefits (benefits less costs).

---

*Many charities do not keep or have access to extensive records on the individuals they serve.*

tions often complement, rather than directly compete with, public services. Social welfare expenditures financed through government taxes represent about 20 percent of the nation's income—10 times the level of charitable contributions. Even the generous \$1.5 billion-plus in charitable contributions made in response to September 11 represents only a small fraction of the federal government's pledge of tens of billions of dollars in disaster relief. Moreover, the government earmarked hundreds of billions of additional dollars for defense expenditures, internal security measures, and potential economic stimulus provisions to help individuals directly and indirectly affected by the terrorist attacks. If voluntarism is taken into account, the difference between the two sectors shrinks somewhat. But by any measure, the capacity of the government far exceeds that of the charitable sector. Its more limited capacity, as well as the availability of governmental aid, makes matching resources to potential recipients' needs all the more challenging.

### **The Selection Dilemma**

Many charities, particularly small organizations, do not keep or have access to extensive records on the individuals they serve or on their other sources of assistance. In the course of raising support, charities may ask potential beneficiaries to volunteer information—for example, requesting that they report income levels to determine sliding-scale dues—but this type of information gathering is limited. Part of the appeal of charitable giving is that individuals often receive support quickly, with minimal reporting. In addition, donors can contribute money without revealing much information about themselves. Charities do not have the government's power to enforce many types of rules on giving or receiving. To get the job done, even the most scrupulous organization must often rely on some degree of arbitrariness and goodwill.

When needs are large relative to charitable contributions, the difficulty of identifying and selecting beneficiaries is less likely to be scrutinized. A food bank that

only serves some of the hungry is not likely to be criticized for helping only a small number of people. Similarly, it is difficult to fault an organization for providing housing assistance to some near-poor individuals and not others. Even when organizations, such as wealthy educational institutions or hospitals, raise large amounts of money, the need is typically so much greater than the resources available that all types of assistance can easily be targeted to more needy populations.

But when donors respond to a specific incident with an outpouring of contributions, the old rules often do not apply. Following the September 11 attacks, Americans gave around the clock. Many donors wanted their moneys to go to those individuals directly affected by the terrible incidents on that day. If one-third of the amount raised so far were simply allocated to the families of each person killed or seriously injured (with the remainder going to others directly affected, such as relief workers and businesses), the assistance per victim would approach \$150,000. How to designate funds became even more complicated when a federal airline bailout bill effectively offered government assistance to each victim's family that would range from very little to well over \$1 million in many cases, depending on pensions, life insurance, and other factors (U.S. Department of Justice 2002).

These circumstances raise the stakes of the selection problem. Charities, whether prepared or not, face dilemmas similar to those of public agencies disbursing the government's social welfare budget. While this added degree of accountability means that controversy is more likely—indeed, almost inevitable—it does not mean that charities have no roadmap to follow. The classic principles of public finance provide useful guidelines in planning for and allocating charitable contributions during times of great crisis as well as in the daily course of doing good.

### **Four Principles of Public Finance** *Progressivity or Vertical Equity*

Under this principle, relatively greater resources are designated to those with

greater needs. This principle reflects the commonsense notion that some people are capable of paying more for help and some are in greater need of assistance. Charities serving the poor obviously heed this principle, but even those that assist (or charge an equal fee) to everyone often draw more of their support from individuals with greater resources.

Some charities involved in helping victims' families after September 11 initially attempted to apply this vertical equity principle. For example, many charities offered to pay for counseling for families, fire and police personnel, and other workers. The September 11th Fund, established by The New York Community Trust and United Way of New York City, allows individuals to apply for help for special needs. In addition, many businesses have offered scholarship help, effectively serving families with children more than those without.

Despite the good-faith effort to apply the vertical equity principle, many of the efforts broke down. So many charities were offering to cover the same needs—such as counseling, food for rescue workers, and immediate financial assistance for rent and food—that they wound up with far more money than needed for those purposes. Public pressure to use funds for individuals and families directly affected by September 11 also shifted the focus away from distributing aid on the basis of families' income and toward distributing it on a per-victim basis. Once the scope of the disaster and the amount of donations collected became clearer, charities expanded their pool of potential recipients to include others affected by the attacks, such as business owners around the World Trade Center and taxi drivers affected by airport shutdowns.

### **Equal Justice or Horizontal Equity**

The principle of horizontal equity holds that two people in identical circumstances generally have the right to be treated equally. This fundamental concept underpins most calls for greater enforcement of civil rights, voting rights, or the equitable distribution of taxes and benefits. Charities traditionally apply the horizontal equity

principle within a recipient group. For instance, every poor person who gets help from a food bank receives the same type of food assistance. Generally speaking, however, they have trouble applying the principle outside the recipient group: The same food bank cannot grant all poor the same assistance within a few square miles, much less across a wider area.

In the case of contributions after September 11, advertising by certain charities led some contributors to believe that the "recipient group" would be confined to those directly affected by the attacks on that day. Faced with an onslaught of criticism, many charities distributed most or all of their contributions according to the public's expectations—sometimes defining families of victims as "equals" by entitling them to the same amount of assistance.

### **Individual Equity**

The principle of individual equity holds that individuals maintain the rights over their own property. As a consequence, they are entitled to keep the product of their labor. One useful application of this principle is that people should be allowed to spend their money as they see fit. A second, more complicated application is in the insurance market. Here, the application of the principle of individual equity generally means that when an insured-against event occurs, individuals in the same circumstances and subject to the event to the same degree receive an expected return proportional to what they put into the pool. Thus, wage replacement schemes such as pensions often provide benefits in proportion to wages because payments made to cover the benefits were (or were deemed to be) in proportion to wages.

Individual equity concerns seemed to have been a significant factor in determining how September 11 disaster relief would be provided in at least two ways. First, people are allowed to pick their own charitable causes, even if others would view those causes as unworthy or inefficient. When many charities shifted away from reserving some September 11 contributions for other societal needs toward helping those affected directly by the attack, they

---

*Charities face distribution dilemmas similar to those of public agencies.*

gave significant weight in part to donor choice, one application of the individual equity principle. Second, many public and private compensation groups, including the Victim Compensation Fund established by the government to compensate the terrorist victims' families, provided some funds on a type of "replacement" basis—either replacing lost wages in the case of the Victim Compensation Fund or replacing lost sources of payment for living expenses in the case of some charities.

### **Efficiency**

This principle calls for maximizing net benefits or benefits less costs. One set of applications (out of many possibilities) is that a program with lower administrative costs is preferable to one with higher costs, all other things being equal. At the same time, balance is required: Much charitable activity involves unavoidable administrative costs, which must be covered in order for the charity to operate efficiently. Moreover, delegating responsibility to those who provide goods and services often promotes efficiency in charitable organizations, just as it does in business.

Efficiency also requires that all gains (and costs) to society should be considered, not just those immediately apparent. For example, in the area of education, the greatest benefits from subsidies go to those individuals who, by taking advantage of schooling, succeed the most and often attain above-average incomes. Society apparently believes that the gains from educational subsidies tend to benefit society generally.

After September 11, there were also attempts to improve efficiency by coordinating charitable activity and reducing duplicate administrative costs. In particular, the September 11th Fund served as a funnel for many (but not, by any means, all) fundraising and distribution efforts. The Office of the New York State Attorney General encouraged coordination and compiled information on all charities on its web site. Charities devoted some September 11 funds to educational assistance, likely based on an efficiency notion that it would do more good in the long run than other uses.

## **Conflicts and Choices in Applying the Principles**

While these principles are straightforward in theory, they are not easy to apply. Here are a few examples where the principles conflict or pose additional questions:

- Even if a charity sets progressivity as a goal, it must determine the degree of progressivity it will apply. The most progressive scheme would give nothing to a better-off person until everyone else had been raised fully to that person's income, wealth, or some other measure of well-being. Understandably, almost no program, public or private, goes this far. But some metric must be applied to determine how progressively services will be provided.
- A charity responding to a disaster and relying on the principle of horizontal equity will attempt to respond equally to all victims in the same circumstances. But as we know from recent experience, what determines "equals" is not always clear cut. For example, should charities raising funds in response to September 11 exclude anthrax victims? How can one provide equal treatment to those affected by the Oklahoma City bombing and military personnel who died in Afghanistan? What about victims from future terrorist incidents? And what happens if the number of victims rises and, as a result, future collections per family decline significantly?
- Individual equity considerations establish the right of contributors to have some control over the allocation of their contributions. But efficiency, as well as progressivity considerations, could lean toward letting charities decide which priorities should prevail.
- In the event of disaster, the victims themselves suffer the greatest losses. By attempting to help victims' families, the government and charities are attempting to do what they can. This disbursement of aid follows a logical efficiency notion of putting money

*The classic principles of public finance provide useful guidelines in planning for and allocating charitable contributions.*

where it can do some good, although one could argue on equity grounds that a victim with no family or a child victim with no dependents suffered a loss equal to the other victims’.

Each principle is difficult enough to apply independently. More confounding is that they do not always lead to the same conclusion. Conflicts among progressivity, individual equity, and efficiency often arise. Horizontal equity generally tends to be consistent with all other principles.

When legislators agonize over these principles in designing social programs, they face the same types of conflicts as charities. They resolve these conflicts in a variety of ways. Some public programs, such as welfare and food stamps, are distributed with a fair degree of progressivity, restricting benefit eligibility to the poor or near poor. Other programs, such as the Federal Employee Retirement System, follow the individual equity principle and give back an amount proportional to what an employee earns.

Many programs represent some form of compromise. Some large public programs, such as public education or Medicare, are funded by wealthier taxpayers more than by poorer taxpayers. On the benefit side, goods or services in these programs are provided more or less on an equal basis for all persons. Other programs, like Social Security, provide more benefits to the rich than to the poor largely on the individual equity notion that the rich contribute more to the fund. Still, if we consider that the rich get a lower rate of return on their taxes or contributions, these programs usually redistribute benefits progressively. For example, a wealthy individual might contribute into Social Security four times the amount of a low-income person, but only get back twice as much.

The complexity of these public programs illustrates how difficult it is to apply all the principles fairly even in well-established programs. For a program suddenly developed to respond to an unexpected need, the feat can be herculean. The potential conflicts show that charities must think

rigorously about what they want to achieve and advertise accordingly.

### **Making Choices and Planning for the Future**

The principles of public finance do not provide easy answers, but they do provide a ready framework for identifying potential problems and prioritizing solutions. In addition, charities should consider ways to strengthen giving distribution processes in the event of future disasters.

#### ***Planning for Contingencies***

Charities often cannot predetermine a formula ensuring that the money they pay out will be distributed as progressively or as fairly as intended. Moreover, if charities make initial benefit payments too high, they will not have enough to pay out to everybody under that formula, and some who are less deserving could receive help before more needy potential recipients can apply for funds. If charities make benefits too low, they will hold excess funds and will have to set up new criteria for allocating the excess money.

In the wake of September 11, many charities tried to take one step at a time, although they faced considerable pressure to use the funds immediately. Some groups at first attempted to use funds only for “emergency” relief or immediate needs, apparently to ensure that funds were not overcommitted. The caution was appropriate because the availability of other money through government aid, pensions, annuities, and life insurance makes coordinating aid difficult. Some charities, like the September 11th Fund, have tried to leave room for meeting future community needs. As demonstrated by the strong public response to the Red Cross’s initial intent to use donations for purposes not related to those directly affected by the September 11 attack, the issue of individual equity, which places a premium on individual givers’ intentions, has to be part of the decisionmaking process. If contributors expressly want their donations spent in a particular way, then the charities in question must give some recognition to those wishes, even if an organization sees some

---

*Charities should lead the charge in increasing scrutiny, enhancing accountability, and rooting out inequities and inefficiencies.*

other compelling need. A weak correlation between donors' goals and charities' actions would surely erode the foundation of giving in this country.

One compromise might be to approach the families of victims to see how money in excess of current needs might be spent. Some individuals without significant financial need would likely be interested in seeing a portion of funds shifted to other areas of need. Organizations that give families the option to decline the funds (as well as those that do not) could offer families the opportunity to designate their funds to related purposes, for example, to help the victims of the Taliban in Afghanistan.

### ***Advertising Successfully***

In the wake of a crisis, charities are tempted to commit resources as soon as possible to meet new needs. Advertising is useful when it presents timely information to the public; it can hurt a charity's cause when the message is premature or misleading. Some charities were buffeted by adverse publicity when people expected one thing and charities did another.

To be fair, many charities simply were not prepared to deal with the crisis. The lessons learned, nonetheless, should help organizations plan for the future. The better a charity is able to define how it plans to allocate money up-front and in public statements, the more likely it is to succeed in gaining the public's trust. It will be better able to balance the objectives of efficiently spending money and meeting donors' preferences. Advanced planning on ways to advertise could also mitigate some of the fairness problems outlined earlier. As the emergency relief efforts necessitated by September 11 shift into lower gear, charities have the opportunity to prepare guidelines for how to advertise in the case of future disaster relief.

### ***Coordinating Activities***

When many charities become involved in a single cause, efforts can overlap and conflict. Exchange of information among charities during times of crisis helps minimize

inefficient duplication. A number of charities and private business partners devoted considerable effort to setting up some infrastructure to deal with this problem in the weeks and months following September 11. Coordination among federal subsidy programs that overlap in attempting to help needy persons could serve as a model. Meanwhile, charities that gather only a small amount of money should consider the large efficiency costs in handling such limited resources. Some organizations could merely serve as conduits when receiving funds for a purpose beyond their capability.

Government has a role to play in encouraging coordination, at a minimum by constantly informing charities about its own actions, through expedited tax filing processes for new charities and enhanced monitoring by states' attorneys general of charities set up quickly in the wake of a disaster. Many such initiatives took place after September 11; now is the time to examine which were successful and which were not.

### ***Facing Up to Inevitable Criticism***

In times of wide-scale need, when large amounts of money are at issue, criticism is inevitable. One individual will simply put more weight on one principle or standard than will other individuals. In the political realm, leaders tend to shy away from these criticisms—often by glossing over the exact activities of the programs that they have sponsored. This withholding of information usually leads to poor policy. The best strategy for charities facing controversy is to be forthcoming and to respond to criticism quickly and honestly. Advanced planning could head off some controversy.

### ***Strengthening the Monitoring of the Charitable Sector***

The charitable sector has no governing body overseeing its diverse members. One of the problems it faces is that poor advertising can "help" a particular charity but hurt the image and potential fundraising of the sector as a whole. Similarly, a small charity may believe that it enhances its

own future by running a duplicate program, even if the inefficiency could lead to less aggregate societal giving if the public becomes disenchanted. In the public finance sector, government accounting rules and regulatory groups, such as the Securities and Exchange Commission and the Federal Trade Commission, help guard against unintentional mismanagement as well as fraud. In the charitable sector, watchdog groups such as the BBB Wise Giving Alliance could help develop standards to be distributed by larger organizations, such as the Independent Sector, a national membership association of charities. The Independent Sector has already commissioned a survey on September 11 and has begun publicizing information on giving following the terrorist attacks (Independent Sector 2002; Wirthlin Worldwide 2001).

A thorough examination or audit of each large disaster relief effort, perhaps financed in part by foundations, ought to become a normal course of business. This examination could help determine how well charities were able to operate within a framework of set principles, such as those outlined here. For the sector as a whole, September 11 likely means greater public scrutiny of charitable activities in any case. It is, therefore, in the sector's own interest to lead the way in increasing scrutiny of giving activities, enhancing organizations' accountability, and rooting out inequities and inefficiencies.

## Note

1. This brief is based on a three-part "Economic Perspective" column appearing in *Tax Notes* magazine. Part one, "The Problem of Selection," appeared in the December 3 issue (pp. 1341–2); part two, "Applying Classic Principles of Public

Finance," appeared in the December 11 issue (pp. 1493–4); and part three, "Making Choices and Planning for the Future," appeared in the December 17 issue (pp. 1641–2).

## References

- AAFRC Trust for Philanthropy. 2001. *Giving USA*.
- Boris, Elizabeth T., and C. Eugene Steuerle, eds. 1999. *Nonprofits and Government: Collaboration and Conflict*. Washington, D.C.: Urban Institute Press.
- The Chronicle of Philanthropy. 2002. Top page. <http://philanthropy.com>. (Accessed April 9, 2002.)
- Independent Sector. 2002. Top page. <http://www.indepsec.org>. (Accessed March 18, 2002.)
- Renz, Loren. 2002. "Giving in the Aftermath of 9/11: Foundations and Corporations Respond." New York: The Foundation Center.
- U.S. Department of Justice. 2002. "Final Rule, September 11th Victim Compensation Fund of 2002." 28 CFR Part 104, CIV 104F; AG Order No. 2564-2002; RIN: 1105-AA79. <http://www.usdoj.gov/victimcompensation>. (Accessed March 28, 2002.)
- Wirthlin Worldwide. 2001. "A Survey of Charitable Giving After September 11th, 2001. Prepared for Independent Sector." October 23.

## About the Author



**C. Eugene Steuerle** is a senior fellow at The Urban Institute, where he has focused primarily on budget and tax policy, the charitable sector, Social Security, and other social issues. His research on charity and philanthropy includes studies on the patterns of giving by the wealthy (for the Council on Foundations), the effect of taxes on charitable giving, payout rates for foundations (for the Filer Commission), and ways of simplifying and reforming tax rules for charitable contributions and charitable giving.



## THE URBAN INSTITUTE

2100 M Street, N.W.  
Washington, D.C. 20037

Nonprofit Org.  
U.S. Postage  
**PAID**  
Permit No. 8098  
Mt. Airy, MD

*Address Service Requested*

For more information,  
call Public Affairs:  
(202) 261-5709  
or visit our web site,  
<http://www.urban.org>.  
To order additional copies  
of this publication, call  
(202) 261-5687  
or visit our online bookstore,  
<http://www.uipress.org>.

The Urban Institute's **Center on Nonprofits and Philanthropy** (CNP) was established in September 1996 to explore the role and contributions of nonprofit organizations in democratic societies. The work of CNP will be communicated through the dissemination of timely, nonpartisan research to policymakers, practitioners, researchers, the media, and the general public.

The **National Center for Charitable Statistics** (NCCS) became a part of the Urban Institute in July 1996 and is the statistical arm of the CNP. The mission of NCCS is to build compatible national, state, and regional databases and to develop uniform standards for reporting on the activities of charitable organizations. NCCS databases are available on CD-ROM, diskette, 9-track tape, or via File Transfer Protocol (FTP) in a variety of database formats. For information, call 202-828-1801 or visit our web site, <http://www.urban.org/centers/cnp.html>.

### THE URBAN INSTITUTE

2100 M Street, N.W.  
Washington, D.C. 20037

Copyright © 2002

Phone: (202) 833-7200

Fax: (202) 467-5775

E-mail: [pubs@ui.urban.org](mailto:pubs@ui.urban.org)