

Competing against Government Subsidies

Tony E. Hansen

Walden University:

School of Public Policy and Administration

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Instructor: Dale Swoboda

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The arguments for government subsidies include protectionism, research and price controls. Yet subsidies provide a cash supplement to businesses many times regardless of the profitability or worthiness of the subsidy. We will see how subsidies impact private giving to charitable causes and philanthropy. First we must consider the various types of subsidies debated. As well we must determine where/how the subsidies are affecting nonprofits, and then we can determine whether such subsidy is a replacement or enhancement of philanthropy. Additionally, Brooks (2000) suggests there is a minor correlation between subsidy effectiveness to philanthropy. Yet, his discussion does not realize or address the impact of economics, social motives, and marketing for private giving.

Experience with fundraising campaigns and grant proposals suggest that private giving must be solicited as a value added benefit and successful private campaigns rely upon a culture geared towards charitable giving. Organizations that seek funds have to build a strategy for gaining and retaining donors. This paper will review the position that government subsidies provide benefits to NPOs (nonprofit organizations) and to the public which they both serve. Yet, some government subsidies for nonprofits may be questionable because of the purpose and the agency mission. We have to realize a perceived benefit and value of how the organization behaviors influence the effect of subsidies in correlation to private donations. The contention here is that the markets for particular donors and the lack of marketing for donations in some organizations tremendously affects the ability to attract private donations regardless of government support. Kirchner et al (Dec 2006) agrees that the correlation may be more accurate when considering the marketing activities of the organizations.

Efforts in this paper will focus upon public radio, hospitals and performing arts which gain significant government support. In each case, the statistical evidence was not compulsory to suggest a significant correlation between private giving and public support, and Irvin and Carr (2005) suggest that private gifts for public benefit are highly variable. This may be due to the experience of the organization with fundraising efforts and the community culture of giving. Many of the studies about correlations between private funding and public support have found minor significances in relationships (Brooks Sep/Oct 2003; Brooks 2000; Irvin and Carr 2005). Experience with fundraising and grant writing coincides with this hypothesis since a well-networked organization and use of marketing help to drive private giving especially in terms of matching grants. As government subsidies declines and competition increases, we see how market-centered organizations or organizations that attempt market-based strategies are managing public and private support (Kirchner, Markowski & Ford, Dec 2006). As well, a well-rounded approach to fundraising must include a market based approach that effectively uses private and public funds as available. The approach must as well engage the community and develop a culture that realizes benefits of giving socially and individually yields better results for fundraising activities.

Subsidies

Where excise taxes attempt to reduce the demand by raising the price of a commodity (ex: oil), subsidies attempt to raise the demand by lowering the market price. WE have to consider human services provided by NPOs as a commodity in a competitive market. Watkins reminds us that subsidies affect the price/demand of goods and services, and thus we have to consider the overall value added benefit of a subsidy in terms of a nonprofit service. Subsidies to a competitive market generally increase supply and lowering the demand price of the product

(usually a commodity) where supplementing the difference of market price with producer (increasing the producer price received) subsidy to lower the consumer price (Watkins, n.d.).

Watkins further suggests that subsidies paid to the producer or the consumer reach the same conclusion of subsidy impact. Thus, we need to determine if benefits of a subsidy to an NPO result in overall benefit to the community, and if not, we need to determine whether private donations are good enough to cover the costs of the NPO service as a measure of demand.

Subsidies are supposed to provide the public with value added benefit which government is either incapable to provide alone or there is significant public interest in the service without increasing the overall size of government (Foegen, 1973). Foegen (1973, p 1) suggests that “government has the ability to stimulate socially desirable projects” and that initial expenditures today as subsidies may, in reality, yield high-returns as long-term community investments. Justification for subsidies include private funding can not provide for all of the necessary funds and certain services are demand inelastic for their operations (Cunningham, 2008; Kirshner et al, May 2007, Foegen, 1973). As well, they suggest that employers may be more likely to provide further funding or services when they are not expected to fund the entire operation by themselves.

There several types of subsidy and we will examine:

- Direct government payment to producers or consumers to supplement revenue streams.

Subsidies are generally thought as direct payments from the government to an organization. Public radio, hospitals and performing arts use many government based grants. Housing allowances are a form of payment where assistance is provided to the landlords (producers) rather than directly to the actual recipient (consumers). NPOs are generally consumers of

subsidies. These can be performance based grants, operational expense payments, or project based grants.

- Tax exempt property as is the case for most churches and hospitals where the organizations do not have to pay local property taxes for facilities.
- Tax exempt sales or purchasing. 503(c)3 organizations may apply to the state for exemption from paying or collecting sales taxes to further the mission.
- Tax-deductible donations. Brooks considers this as technically a subsidy since tax receipts are offset in order to encourage private giving.

Basic marketing needs

A basic principle of marketing is that gaining new buyers is more costly than retaining existing ones. This principle guides marketing departments to keep track of who are their consumers, how the consumers respond to the organization and for NPOs who are the paying patrons, the donors, and the volunteers. City Circle Acting Company in Coralville borrowed this principle from a successful implementation by the Des Moines Playhouse when reevaluating its financial picture, trying to forecast the future of the theatre and to understand where to get funds. This became an essential part of fundraising drives as record-keeping helped the theatre raise more funds year-over-year. Additionally, the theatre (and other NPOs) can use retained customer/patron base as a loyal funding source and present more accurate forecasts when applying for grants (especially those with matching funds requirements).

Public Radio

Arthur Brooks discusses public broadcasting and the affect of government support for public radio and television. He argues that public radio was nonexistent without government support and funding for public broadcasting has been subject to the political winds of

congressional support ever since (Brooks, Sep/Oct 2003). He also presents statistics that suggest public radio is government supported by a potential 45% of total funding where individuals and other private funding provide up to 37%.

Reviewing the Corporation for Public Broadcasting requirements for grants, public radio is required to present matching funds prior to receiving grants (CPB, 2008). This is echoed in the fundraising drives by stations like KUNI/KHKE and WOI of Iowa Public Radio when they hold semiannual fundraising drives. Their primary effort is to raise money and as well to meet the matching contribution requirements.

Since becoming a “member” of public radio, there is continuous effort on the part of the stations to solicit further donations and especially during the semi-annual campaigns. In addition, they offer the ability for donors to give over time rather than a lump sum. A specific campaign during a part of the year may not be received well where people are economically prohibited from giving larger sums when the campaign does not give that flexibility. This feature may cause more work for the organization, but helps them to realize the needs and abilities of loyal patrons. This type of campaign solicitation also requires a marketing mechanism that enables patrons to feel more benefit about giving more money over time than they would for a particular and singular gift when the cash is not currently available. Pledged and monthly support can help the stations get the matching government grants to cover the 45% gap as described and provides flexibility for the donors to give more.

Performing Arts

Brooks (Summer 2004) reveals in his paper about public arts support that since the National Endowment for the Humanities was passed, the government funding has actually reduced since the mid 1970s where private giving to public arts has steadily risen in the 1990s.

Additionally, he reveals that indirect subsidies (like itemized deductions) also steadily rose over the 1990s. One also has to consider the economic impact where the early 1990s was hampered by recession and war while the late 1990s saw significant economic expansion, and thus, private giving may have been motivated by rising discretionary spending over the decade.

Performing arts organizations can not typically operate without public financing of some sort to maintain continual operations (Kirchner et, 2006, Brooks 2004). City Circle Acting Company may not have been paid directly by the city or government grants, but the theatre benefited from city and university donations of facilities, community advertising, and community recreation center ticket services. For the performing arts, Brooks found that private giving to the arts amounted to a ratio of almost 16 to 1 to government support funds (Brooks 2004), but the performing arts since the New Deal have relied upon government financing to maintain operations.

Hospitals and Health Care

Hospital campaigns illustrate the needs and complexities of a large organization that is able to gain private and public financing in coordination with its long-term in addition to short-term goals. Hospitals however are administrated as non-profit but their business model suggests a profit-making machine as suggested by McEachern (2001) when they turn over continuous surplus of funds on an annual basis. Yet, liberal filmmaker, Michael Moore, arguably suggests in his interview with CNN's Larry King (Moore, May 1, 2008), health care can not simply turn away someone for profitability purposes in much the same way that firefighters and police can not operate on a profit only basis.

Sanders (1995) agrees with McEachern's skepticism, by saying that the cost of providing the exemption weighs more than the benefits received. Sanders and McEachern claim unfair

competition due to lowered overall property costs and income tax exemptions. Sanders further suggest that hospitals have used insurance payments to endure the costs of uninsured or indigent patients rather than public financing to offset these costs. Further, they argue the reduction in tax revenue causes the overall taxpayer burden to rise.

Hospitals, like other institutions, benefit from tax-exemption as part of their subsidy package. McEachern argues against tax-exemption for these institutions, community colleges or religious organizations because these organizations generally attempt to build a surplus and negatively affect the tax base either through unpaid service expansion or lack of property taxes. Yet, no organization wants to continuously run with a zero balance in its accounts. His and Sander's arguments are problematic when they fail to address the economic benefit of having educated (and usually well-paid) workforce that these institutions bring to a community in addition to the services they provide. Sanders (1995) argues the large salaries of hospital administrators should bring into question their 501(c)3 restriction where "no part of the net earnings of the organization inures to the benefit of any private shareholder or individual" (IRS, 2008). All organizations provide a benefit to someone in their employment and thus this argument is difficult to uphold. As well, these properties initiate a community sense of pride, professional skills, and generate tourism (a community economic benefit) when people come to visits these institutions.

Hospitals provide an example of a type of NPO that uses many different types of subsidies in addition to private giving to stay open. From property and sales tax exemptions, Medicare/Medicaid payments, to technology incentives, hospitals receive plenty of public benefits for operations, but health care centers also attract a demographic of educated and skilled workforce as well as capital investments to the community in addition to providing essential

services like emergency medical care. The perceived value of hospitals is projected in their fundraising campaigns and solicitations

Experience suggests networking and engagement

Doug Cunningham, Executive Director for Iowa Respite and Crisis Care Center, has written a number of grant proposals for many different organizations and purposes. In a discussion about private financing and public support, he argued against Kirchner's point that private giving is not tied to marketing but more that the networking capabilities of the board members and the fundraising individuals. This correlates with my experiences working with City Circle where the board members that we had gained us advantages to facilities and services for reduced rates simply because of their particular community associations. He also suggests that government subsidies are provided as matching grants, and thus donors are solicited to provide the needed matching grants where, in some cases, the donations may only have to provide ten percent of the project. This provides value based incentives to donors when the efficacy of their money is exponentially raised or their money helps to generate more money for the organization.

For McEachern assertion that hospitals are actually profit making ventures when they achieve surpluses year over year, Cunningham further suggests that this is why hospitals and collegiate alumni associations are good examples of successful campaigns that engage donors, solicit government grants and other business/foundation grants as part of a whole effort to raise funds for capital projects or direct service needs since they appeal to a sense of pride and community benefit. Additionally, both, Cunningham and I, have experience with successful fundraising that suggest that donors enjoy the reduced tax obligations from giving to various charities whether as cash or as in-kind giving, in addition to having a perception of a cultural and social benefit by the giving. The knowledge of matching funds will help to gain more private

individual funding when the giving is multiplied by some amount. This reassert positions by Brooks and Foegen that say people are socially motivated to certain causes that the government does not participate like crisis centers, homeless shelters and certain performing arts and thus, the “crowding out” hypothesis offered by Brooks does not accurately describe how public financing affects private giving.

Some agencies after receiving large lump sum grants become considerably complacent to solicitation of additional or continuous funds for the operations until the funds dwindle (Brooks, 2003; Cunningham, 2008; Kirchner 2006), but as Kirchner suggests, organizations have to be able to demonstrate financial health in order solicit grants and donors successfully. A considerable time gap between donation requests can alienate potential donors and force the agency to seek them as new donors in future campaigns when the organizations fail to continuously engage them.

Irvin and Carr (Fall 2005, p2) make the note that, “...a well-defined and highly active nonprofit sector attracts the majority of philanthropic funds...” which correlates the assertions made here. A passive approach to fundraising may neglect the ability to generate funds from reliable and known sources and citizens may be more willing to donate when they perceive their money to have a direct impact upon the level of service (Irvin and Carr, Fall 2005) rather simply than going into some vague pot of money for some abstract and undefined purpose.

The perceived value has to consider the perceived viability the organization by both private and public donors (Kirchner et al, 2006, Cunningham, May 9, 2008). The “intangible benefits” of giving have to be perceived by a culture ready and willing to understand a necessity of service as a value of the benefit rather than purely as a luxury. As well, people are less willing to give money or pay taxes when there is corrupt administration, (perceived lack of oversight or

accountability) as illustrated by negative reactions in private giving to the Red Cross when donations for victims of September 11 terrorist attacks were not being distributed to survivors. Furthermore, if there is a large cash flow and little effort for community services, a poor perception of value and the agency will have an impact upon fundraising campaigns. This is asserted by resistance to scams that trick and prey upon private giving which does little of the “intended purpose” of the money.

Summary

Agencies will many times forget they have to run a business in addition to serving the cause they profess. Fundraising is a full and functional organizational activity that has to engage the community and project a viable perspective of the organization and value benefit for the community in order to gain suitors. Additionally, successful organizations find the combination of government support and private giving has to be part of a concerted effort to retain those donors and continuously operate.

Hospitals, collegiate organizations and other organizations are good examples of how successful campaigns connect the community in addition to government subsidy programs upon the prospect of doing a public and social “good”. Performing arts and public radio depend upon government support in addition to private giving and successful organizations have employed similar tactics as hospitals and collegiate organizations by making sure there is a continuous and top-of-mind reference to the benefits generated and employed by the gifts.

Nonprofits provide an element of quality of life that government can not provide and is demand inelastic. Government support of these causes helps to maintain (or enhance) the quality of life for the community in which the nonprofits serve. A crowding out impact of private giving by public support will occur when the organization becomes complacent with larger grants and

neglecting to maintain contact with donors and private foundations. Successful fundraising campaigns will and have used the ability of matching funds subsidies to multiply the effect of money received from individuals as private giving. Successful campaigns will continuously engage the public they serve and continuously build a comprehensive fundraising strategy that includes public and private financing where each part enhances the others' contributions.

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