
More Advance Praise for Uncharitable and Dan Pallotta

“For those of us who have labored in the trenches of the nonprofit world, this book comes like a rainstorm to a parched land. For too long society has demanded that the nonprofit sector put traditional operating procedure ahead of innovation. . . . Dan and his team have raised unprecedented sums to help treat devastating human disease. Our lab received \$100,000 for research from one of his company’s events. The findings from that research allowed us to secure over \$20 million more in federal grants. Those who would take issue with doing things in a new way will have to reconcile their reservations with those results.”

—**Peter Anton, M.D., Professor of Medicine, and Director, Center for HIV Prevention Research, David Geffen School of Medicine at UCLA**

“Dan is a pioneering individual of tremendous vision. A decade ago, he reinvented the concept of charitable fundraising—and his ideas now promise to reengineer the entire non-profit industry. The lines between the private sector and civil society already are blurring, but the momentum of Dan’s ideas will accelerate this fusion. *Uncharitable* is a must read for people seeking careers in social enterprise or attempting to drive meaning into their work.”

—**Jonathan Greenblatt, Co-Founder, Ethos Water, and CEO, Good Magazine**

“Do the norms and values that have defined the way charity has been undertaken for centuries continue to make sense in the current age of globalization, mass marketing, and technology? Dan Pallotta makes a convincing case that the time has come to rigorously measure strategic impact rather than overhead ratios, be more competitive in regard to mass communications and marketing, and more adequately invest in administrative systems and program support.”

—**Charles MacCormack, President and CEO, Save the Children**

“Charitable non-profits exist to leverage our country’s prosperity for the benefit of those in need, and yet too often non-profits reject the tools and the techniques that have made that prosperity possible, shortchanging their noble causes in the process. With passion and logic, and drawing on his own deep well of experience, Dan Pallotta shows how the power of capitalism can be marshaled to the cause of compassion.”

—**Yuval Levin, Ethics and Public Policy Center, and former Associate Director of the White House Domestic Policy Council and Coordinator of National AIDS Policy**

“America needs the smartest and most creative people operating its multi-billion dollar nonprofit sector. To attract them, we must be competitive in compensations, business management and fundraising ideas. Nonprofits who see themselves ‘poor as a church mouse’ do their mission and supporters a disservice.”

—**Morris Dees, Founder and Chief Trial Counsel, Southern Poverty Law Center**

“Dan Pallotta’s book is a brilliant take on the absurdities that constrain the potential of our fastest growing sector—the nonprofit world in America. He raises questions that every executive director asks him or herself every week, but finds no public discourse on. Dan has put together a timely manifesto that outlines the only direction that makes sense—embracing true entrepreneurial initiative and challenging the paradoxical split in America that sets business free but straitjackets charities.”

—**Torie Osborn, Senior Advisor to Los Angeles Mayor Antonio Villaraigosa, and former Executive Director, Liberty Hill Foundation, National Gay & Lesbian Task Force, Los Angeles Gay & Lesbian Community Services Center**

“As the chairman of a nonprofit policy institute, Dan Pallotta has clarified for me the explicit and many implicit constraints under which we operate. My thanks.”

—**William A. Niskanen, Chairman, The Cato Institute**

“Dan Pallotta writes a commanding and compelling vision of what charities and non-profit organizations are capable of becoming freed to fully embrace free enterprise thinking and action. He would have us break permanently from the notion that spending money in the service of raising money for deserving social causes is a sin. Anyone who cares about the vexing social and health problems facing society should pay close attention to the brilliant ideas percolating in this groundbreaking book.”

—**Everette J. Freeman, President, Albany State University**

“I have long considered Dan Pallotta a wise and visionary man with much to contribute to our world. This book proves it. His insights into charities and non-profits are as brilliant as they are unexpected and unorthodox. It has always seemed to me that t

impulse in our culture to give to worthy causes is a manifestation of what is best about us as people and as a society. This book explains how we limit the effectiveness of our organizations and undermine the realization of our purest dreams and our highest hopes. It is essential reading for anyone who cares about non-profit organizations or the money they give to them. I truly believe that following the wisdom in this book would lead us to impacting on the problems of our world in a genuinely amazing way.”

—**Judith Light, two-time “Best Actress” Emmy-Award Winner, and AIDS Activist**

“*Uncharitable* is the most courageous and necessary of all of the recent books that have been written about philanthropy and the nonprofit sector. Dan Pallotta understands that being faithful to those that charities are designed to serve requires more than generosity and good management. It requires taking risks, confronting antiquated notions of politically correct charity, and most of all remembering that nonprofit efficiency should be a means to an end not an end in itself. *Uncharitable* charts a new path that if followed could finally create the incentives needed to unleash the enormous potential of nonprofits to change the world.”

—**Bill Shore, Founder and Executive Director, Share Our Strength**

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UNCHARITABLE

How Restraints on Nonprofits
Undermine Their Potential



DAN PALLOTTA

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To Jimmy

&

to Freeman, who taught me how to make an argument

All great truths begin as blasphemies.

–GEORGE BERNARD SHAW

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INTRODUCTION

All successful revolutions are the kicking in of a rotten door.

—JOHN KENNETH GALBRAITH

The fact that charity exists at all is a testament to the tenderness of the human soul. We feel for other people. When someone else is suffering, we suffer ourselves, and we have a powerful and emotional need to help. The very fact that charity is an emotional subject is further testimony to our love for one another. On the question of whether or not humankind is basically good, this reality speaks for itself.

The system we have for channeling this inner charity is itself called “charity,” and just as we all have a desire to make a difference, we have all been taught by this system how best to do it. But as we look around at the persistence of poverty and need, of disease and suffering in a world of unimaginable affluence and productivity, we have to ask ourselves, Does the system work? Is it the best system we could have? What other systems are available? It is to these questions that this book is addressed. The possibility that there is another system that could take our love for one another and leverage it into social progress on a scale we have never even considered must be examined.

Like most people, I never asked questions about our system of charity. Why would I? Who was I to question a system that had been around for centuries? It never dawned on me to ask questions about it. Then I spent two decades working inside the system. During that time an observation was gathering momentum—this system doesn’t work. Another observation was gathering momentum about a system that does.

This book is about those observations. Specifically, it is about eradicating the nonprofit beliefs that are the basis of our system. This book advocates a reversal of almost everything we have been taught about doing good, in order that we might achieve good on a scale not previously imagined. It is about freeing charities—and all of the good people who work for them—from a set of rules that we designed for another age and another purpose, and that actually undermine their potential and our compassion. It is about giving charity equal rights with the rest of the economic world and allowing it to use the system everyone else uses to get things done—free-market capitalism.

Whenever I told people I was writing a book about freeing charity to use the tools of capitalism, they would nod their heads, believing they were in total agreement, and proceed to say that we absolutely need to put *more* restraints on charity. This response was consistent. It made me realize something else—that the only way most of us can even *conceive* of improving charity is by constraining it *further*. I could see that this belief was so ingrained that it had compromised my friends’ hearing—literally. Our nonprofit ethos is a kind of religion on which we have been raised, and it doesn’t easily suffer the bigger picture. In fact, like most religion, it obscures the bigger picture. *Suffice it to say, this book is not about adding constraints. It is about removing them, in the interest of the bigger picture.*

For example, after explaining to a friend that we need to let charities hire the most talented people in the world, he wholeheartedly agreed and then said something that didn’t logically follow: “It makes me angry to see people making high salaries in charity.” “Even if they’re worth it? Why?” I asked. “Because it’s supposed to be nonprofit,” he replied. Right there he gave expression to the entire problem. His logic was internally consistent but externally nonsensical. Still, I understood where he was coming from. Twenty years ago I felt the same way. In fact, I remember thinking it was unconscionable that a charity event producer I knew about was making a profit “off of,” as I thought

of it at the time, people's compassion. "Nonprofit" means you don't seek gain for yourself. So when someone wants a high salary, of course it makes us angry. It is a violation of the fundamental basis of the system.

But what if the fundamental basis of the system is the *problem*? What if a system that frowns on self-interest turns out to be an inferior way of serving the interests of others? What if a system that allows people to satisfy *their own* self-interest as well as the interests of others turns out to be a much more effective way of helping those in need? In other words, what if the whole system should not be nonprofit in the first place? Then my friend's logic, and the whole of society's, is rotten to the core and everything we have come to believe about helping the needy is as well.

From a system that starts with an illogical premise will come a series of illogical rules. Such is the nature of the nonprofit dilemma today. For instance, the great suffering masses of the world would no doubt benefit from the full-time services of the brightest graduates coming out of the nation's top MBA programs. However, society's nonprofit thinking refuses to allow them to earn anywhere near the kinds of salaries they can command in the for-profit sector. Predictably, then, they head off to the for-profit sector, steering clear of its nonprofit stepsister. People continue to die as a result. This we call morality.

The same is true of the issue of investment capital. If we allowed investors to make as great a financial return by investing in their favorite charity as they can by investing in Toyota, they would send investment capital to their favorite charity. That charity would have money with which to experiment and to grow. Alas, society's nonprofit commandment prohibits this. So all the investment capital goes to the for-profit sector. Our favorite charities are starved for new capital. This we call benevolence.

Same with advertising. No doubt, the Leukemia Society would take in more donations if they paid for advertising on the Super Bowl. Our nonprofit mindset prohibits it, on the grounds that it is wasteful and that people should give without having to be asked. So Budweiser advertises on the Super Bowl instead and reaps the sales bump that might otherwise have gone to the Leukemia Society. This we call charity. The very system we have cherished as the hallmark of our compassion in fact undermines it.

The more I began to write about these irrationalities, the more I was haunted by an obvious question. From where could this erroneous thinking possibly have come? We are not irrational by nature. In the depths of our hearts, we want to do whatever will most help the needy. How could we possibly have become religious about a belief system that undermines those we most want to help?

I began looking for the answer by studying the earliest formal constructions of charity in America, beginning with those of the early Puritan settlers to New England. Having grown up in that region, I was familiar with the Puritan gestalt, and the nonprofit gestalt felt uncannily similar. I am not a historian, but nevertheless I found what I was looking for. It was as fundamental as things can get. It was the Puritans' religious belief that human beings are evil, that we are obnoxious in the eyes of God, and that the self is depraved. Logically, this meant that the self had to be negated. Charity became the monument to this belief, a compensation for human depravity. From that core belief grew a complete array of rules and secondary beliefs designed to preserve it. As a result, the merchants, farmers, and carpenters of the world got an economic system that indulged self-interest—they got free-market capitalism. The needy got a religion—charity—whereby the merchants, farmers, and carpenters could do penance for their self-interest. By and large, that is still what the needy have today.

Most of the efforts to improve the current situation are careful not to offend the underlying

religion. Thus, they are necessarily complex, and can only hope to have an impact at the margins, if at all. ~~But this is not a complicated problem to solve. Remove the error, and you remove the problem.~~ What we are left with is this shocking reality: that the way to alleviate suffering on earth is to use the same system that satisfies every other human need and that heretofore has been prevented from doing so by the religion. That system is free-market capitalism. If we surrender our nonprofit dogma, we can bring economic freedom to the causes and charities we love, and we make rapid progress toward solving the most vexing problems facing humanity. It is to this radical thesis that this book is addressed.

To understand the current problem we have to start with a problem that originated almost four hundred years ago, so the first chapter begins with a contingent of ships carrying some of the earliest Puritans to the New World. The second half of the chapter deconstructs their ideas about profit and charity. *A journey into Puritan history might sound worse than a root canal, but for me it ended up feeling more like a therapy session—“Oh, this is why I think that way.” I hope it will have the same effect on you.* The more light we can shed on why we do and how we got in the habit of doing it, the closer we will get to an epiphany about why it doesn't work. The more we understand why it doesn't work, the more eager we will be to move on from these antiquated ideas and begin dreaming of the amazing and humane new world we could create with our own ideas, relevant to our times, not to the seventeenth century.

I learned about all of these irrationalities the hard way. A horrible thing happened after creating one of the most successful charitable fundraising event operations in history. *We went out of business.* From 1994 to 2002, the AIDSRides and Breast Cancer 3-Day events that my company created raised more than half a billion dollars and netted more than 300 million dollars in unrestricted funds for dozens of AIDS and breast cancer charities—more money, raised more quickly, for these causes than any private event operation had raised in history.¹ As a result of our innovative approach to fundraising, Harvard Business School commissioned a case study of our methods in 2002.² That year, our most successful ever, we netted \$81,985,303—more than half the annual giving of the Rockefeller Foundation—unrestricted funds for a variety of causes. *Then we went out of business.*³ More about that in the case study at the end of the book.

The ideas in this book came to me while our business was becoming more and more effective. I watched critics attack us, with logic they would never apply to the for-profit sector, simply because our methods challenged convention. Remarkably, this seemed to matter more to them than the results we were producing. The tragedy of seeing all the good we were achieving attacked in the name of an allegedly superior morality that would rather allow people to suffer than employ new ideas that could help them led me to write this book.

I am not an academic. I am an activist and an entrepreneur, with all of the passion and impatience those roles imply. If there is any value in this book it is not academic. It is simply that it is able to say what most people inside the nonprofit sector are unable to, for fear of losing their livelihood or the livelihood of their institutions and the clients they serve. Its purpose is to be a voice of reason and truth for those whose voices are silenced by fundamentalism and oppression inside the sector. I am not constrained by these burdens. One of the ironic luxuries of losing everything you built is that you are free to tell it like you see it. If our business were still operating, I could not have written the book.

It is my hope that this book will give definition to a new cause—the challenge of transforming the very meaning of charity itself—and that it will ignite a passionate movement inside and outside the nonprofit sector on its behalf. More plainly put, I mean to create an uprising, a movement that questions all that we have been taught—every rule, every constraint, every sacred cow—everything and anything

that stands in the way of our ability to eliminate suffering and need. The nonprofit sector is being suffocated by a morality imposed from the outside and reinforced from within. It is based on methods instead of outcomes, and it is killing people. I don't believe there is any cause more important than the eradication of this *thinking*, because it stands in the way of eradicating many of the great problems confronting humanity.

CHAPTER 1

The Morality of Outcomes

Confusion of goals and perfection of means seems, in my opinion, to characterize our age.

—ALBERT EINSTEIN

Six o'clock on the morning of April 8, 1630. After ten days of southwest winds and stormy seas, the weather has finally turned fair, with a slight wind from the east and the north. John Winthrop, “brave leader of Christian tribes” and future governor of Massachusetts, is at last able to set sail for the New World from Yarmouth, England, aboard the 350-ton *Arbella* with fifty-two seamen and twenty-eight brass cannons on its gun deck headed for Salem, Massachusetts. Winthrop leads a contingent of four vessels, with seven others to follow three weeks later, the first of seventeen that will carry over a thousand passengers to Massachusetts in 1630. Some two hundred die on the eight-week journey. On the occasion of this voyage, Winthrop delivers a sermon entitled “A Modell of Christian Charity” that makes famous the symbol of “a City upon a Hill,” an image he drew from the gospel of Matthew.¹ It begins, however unintentionally, by institutionalizing inequity, poverty, and the need for charity itself.

God Almightye in his most holy and wise providence hath soe disposed of the Condiçion of mankinde, as in all times some must be rich some poore, some highe and eminent in power and dignitie; others meane and in [submission . . .] soe that the riche and mighty should not eate vpp the poore, nor the poore, and dispised rise vpp against their superiours, and [shake] off their [yoke].²

An honest study of the sermon reveals it to be a heartfelt plea for unity and humanity, made impossibly complex by the oppressive religious dogma and class and racial prejudice of the times. It is a message of love delivered to a people taught to detest their nature. Therefore, it essentially ignores the daunting reality of self-interest by mandating self-deprivation. It is part vision, part rulebook for maintaining social order three thousand miles away from the institutions that normally enforced it.

It establishes benevolence toward one's fellow man as mandatory and formalizes it in a “covenant with God. It warns that if these people abide anything less than “a strickt performance of the Articles contained in it,” then “the Lord will surely breake out in wrathe against [us and] be revenged of such [perjured] people and make [us] knowe the price of the breache of such a Covenant.”³ The entire scene is a contradiction lost on its cast: a community of aspiring benevolence headed to a strange land to build God's new world by appropriating it from its natives—determined to “possesse it.”⁴ If they keep their covenant, that possession will be their reward from God.

These people, their beliefs, anxieties, and contradictions will create the basic construction of charity and philanthropy in America. Winthrop and his fellow Puritans were Calvinists, guided by the teachings of sixteenth-century French theologian John Calvin, who believed man was depraved—totally and hereditarily. This is important, because this belief would become the primary driver of

their ideas about charity. The following startling passage is from Calvin's definitive work on Christian theology, *Institutes of the Christian Religion*:

Original sin, therefore, seems to be a hereditary depravity and corruption of our nature, diffused into all parts of the soul, which first makes us liable to God's wrath . . . we are so vitiated and perverted in every part of our nature that by this great corruption we stand justly condemned and convicted before God . . . even infants themselves, while they carry their condemnation along with them from the mother's womb, are guilty not of another's fault but of their own. For, even though the fruits of their iniquity have not yet come forth, they have the seed enclosed within them. Indeed their whole nature is a seed of sin; hence it can only be hateful and abhorrent to God. . . . For our nature is not only destitute and empty of good, but so fertile and fruitful of every evil that it cannot be idle . . . the whole of man is of himself nothing but concupiscence.⁵

"Concupiscence" means "strong sexual desire, lust." No wonder he used the term—Calvin was twenty-six years old at the time he wrote this.⁶

The Puritans were certainly not the first to believe in original sin, but they were the first to formalize a construction of charity. That original sin was the centerpiece of their worldview then becomes critical. *Love of one's fellow man was to be motivated by hatred of oneself.* Internal inconsistency doesn't get more inconsistent than that. It is impossible that a system with that basis could exploit the full potential of humanity's love. Indeed, it is remarkable that it motivated any. If we are to accept the modern enlightened view that we are all one, then hatred of oneself is nothing more than hatred for another. The absence of love for oneself leaves no love for anyone else.

At the same time they were meditating on depravity and eternal damnation, the Puritans were fulfilling God's will by killing and enslaving Indians and executing suspected witches. It is in this overall context that their model of Christian charity must be understood. Their City upon a Hill was soaked in the blood of its natives. Their construction of charity did not exist apart from their fear of their need for perfection, or their belief in their own unworthiness. This book is about building a world without intimidation or limitation by their anxieties or ghosts. Its purpose is not to demonize them but to free us of their demons.

The possibilities that stand before us deserve such a deconstruction. In fact, it is long overdue. We are the first generation to hold in our hands the possibility of ending hunger on the earth. Our children can know a day without cancer or multiple sclerosis. We can be alive on the morning when church bells ring in unison the world over because a cure has finally been discovered for AIDS. We stand on the precipice of a possibility not known to any of our ancestors—a world free of most of the suffering that has plagued humanity since the beginning of time. Our greatest moral question is whether we will make this imagined world a reality. The most important question we can ask at this juncture is, What stands in our way? I believe the answer is simple—it is our inherited definition of morality itself.

Nonprofit Ideology

The word "profit" comes from the Latin noun *profectus* for "progress" and the verb *proficere* for "advance." Thus, the term "nonprofit" means, literally, nonprogress. It is a dangerous unconscious statement of intent, or lack of it. No advance. No progress.

This is not a simple case of mistaken meaning. The Puritans' conviction that the self was depraved required that it be negated, whether it wanted to profit, progress, or advance. Charity, as they constructed it, became the epicenter for this negation. To these roots we will return.

Even on the basis of the modern understanding of profit—as in financial surplus—the nonprofit

sector suffers from the distinction of being the only sector whose name begins with a negative, Harvard Business School Professor Allen Grossman has noted. It apologizes for itself before it begins. It seems to understand only what it is against and is rudderless with respect to what it is for. It is from this starting position that we attempt to transform society or, put more accurately, do not attempt to under the false impression that we do.

All of this is the opposite of what we intend. We give money to charity because we *do* want progress. We want things to change, not stay the same. Somewhere in the depths of our hearts we have a desire to make a difference. We all want our lives to matter. In an often dreary world, each dollar we give is a sign that we have not yet lost hope. In the midst of our busy lives, each contribution is a sign that we have not forgotten about all those who live in poverty, despair, and abandonment. Out of this basic charity *inside* of us has grown a charity *outside* of us—a multibillion-dollar industry employing millions of people who work to turn our contributions into positive change. We put our trust not just in individual charities, but in the *system* of charity itself to take our offerings and make of them a better world.

But that system doesn't seem to be giving us what we are after, or what we should be after. So we have to ask ourselves, Why do things seem to stay pretty much the same? Why have our cancer charities not found a cure for cancer? Why have our homeless shelters not solved the problem of homelessness? Why do children still go hungry on the streets of America? Why have the pictures of the starving children in Africa not changed in five decades? Why, in this age of incredible affluence, do we seem unable to close the gaps that divide those who live in comfort and those who suffer?

Many people want to blame charities themselves. "They are inefficient. The money never goes to the people it's supposed to. People who work for charity are lazy." A study released in 2008 by Ellis Research showed that "most Americans believe non-profit organizations and charities are not financially efficient enough in their work."⁷ A 2004 Brookings Institution study found that "nearly one out of three respondents expressed little or no confidence in charitable groups, and only 11% said they believe that charities do a very good job of spending their money wisely."⁸ Seventy percent of people surveyed in a 2008 NYU study said that charities "waste a 'great deal' or a 'fair amount' of money." I can't subscribe to this myopic point of view. I am in awe of the work that our charities do. I am in awe of the people who work for charity. Day in and day out they give their hearts and souls, making huge sacrifices, and working under the most difficult circumstances and the most oppressive economic restraints. They don't deserve to be scapegoated in this way. We should be singing their praises.

Some people want to claim we're a selfish or apathetic society—that we care more about flat screen televisions than we do about the poor. I don't subscribe to this point of view either. American individuals, corporations, and foundations gave away \$295.02 billion in 2006. Of that, \$222.89 billion, or 75.6 percent, came from individuals.¹⁰ About 65 percent of all American households with an income of less than \$100,000 donated to some type of charity, and nearly 100 percent of those with incomes greater than \$100,000 did.¹¹ A 2006 British study put American charitable giving, quite conservatively against other studies, at 1.67 percent of gross domestic product—still more than double the figure for the next-closest nation.¹² Our charitable infrastructure is the largest on earth. These are hardly signs of an uncaring people. They are signs of the opposite.

Still others say that hunger and disease are inevitable and that they will always be around no matter what we do. I subscribe to this point of view least of all.

We might find out something about why our current ideas aren't working by comparing them with ideas that are. Why are we so successful at making sneakers, iPods, entertainment, and countless

discretionary products, and at selling them too? Why does the for-profit sector consistently attract those in the upper percentiles of the world's best business schools? Why does the for-profit sector attract all of the investment capital? How does it monopolize the world's advertising? Why do businesses grow to be huge while charities, particularly those working on behalf of the world's most needy citizens, remain quaint and small? As of 2004, about 72 percent of America's nonprofits had annual revenues less than half a million dollars.¹³ And while the nonprofit sector may account for about 5.2 percent of U.S. gross domestic product, by at least one account as of 2004, spending for "public and societal benefit" amounted to only 5.5 percent of that, or just 0.39 percent of America's gross domestic product.¹⁴ Spending on "human services" amounted to 13.6 percent of the total nonprofit sector account, or just 0.71 percent of America's GDP.¹⁵ Why do the organizations dedicated to our greatest needs have the fewest resources?

The answers to these questions will have us questioning the fundamental underpinnings of the world of charity as we know it, right down to the notion of whether it should be a separate world at all. They will challenge the assumptions on which that world is based and confront both its methods and its ends. They will reveal the damage done by principles that have never been questioned. They will uncover what is uncomfortable to confront.

Our system of charity doesn't produce the results we are after because there is a flawed ideology at work. Its error flows directly from the Puritan belief in human depravity. The principal tenets of this ideology go something like this:

- People who want to work in the nonprofit world should be more interested in the good they can do than in the money they can make. Those who want material abundance do not have the concern of the needy at the forefront of their minds.
- Charities should not take risks. They are taking risks with earmarked funds. They should be cautious.
- Charities do not have the luxury to think about the future. Donated money should be spent immediately to alleviate the suffering of others.
- Charities should not waste money on expensive advertising. It is money that could otherwise go to the needy.
- Charities should not make mistakes. A mistake means a charity is wasting money and waste is immoral.
- No one should seek to earn a profit in charity. Profitmaking is for the for-profit sector.
- Charities should maintain a low overhead percentage. This is the only way to know that any good is being done. Low overhead is moral. High overhead is immoral.

The canon to which these mistaken ideas belong is what I refer to as nonprofit ideology. It is a dysfunctional mentality based on deprivation. Our loyalty to it keeps us from getting what we are really after.

Let me be clear that by "nonprofit ideology" I do not mean the nonprofit sector. I do not mean nonprofit organizations or the people who work for them. Nor do I mean the wonderful ideals of a better world that the people who work in the sector strive for every day. By "nonprofit ideology" I mean the oppressive set of rules that the whole of society has forced on these good people and organizations—the severe restraints we impose on them that keep them separated from the dreams that brought them into the sector in the first place.

That said, there are other tenets that come from the observation of the natural behavior of human beings and the fundamental laws of nature. They are not contrived but predictable. Their validity has been established by nearly three hundred years of capitalist productivity, and if we are serious about

curing breast cancer, ending poverty, and advancing the cause of humanity, they warrant our attention.

- If we allow charity to compensate people according to the value they produce, we can attract more leaders of the kind the for-profit sector attracts, and we can produce greater value.
- The more that charities take calculated risks, the better the chance that they will break new ground.
- The more we allow charities to invest in the future instead of only the current fiscal year, the more they will be able to build the future we all want.
- Advertising builds consumer demand. The more that charities are allowed to advertise, the better they can compete with consumer products for the consumer's dollar, and the more money they can raise for the needy.
- The more mistakes a charity makes in good faith, the faster it will learn and the quicker it will be able to solve complex problems. This is the only path to solving problems—one must “fail upward.”
- Profit is the key to investment capital. If people could make the same return from investment capital in charity as they can in for-profit investments, charity would raise massive additional investment capital.
- A charity's overhead percentage doesn't give you any data about the good it is doing in the world. If charities focused more on solving the world's problems than on keeping overhead low, more of the world's problems would get solved.

But this is not what we have been taught. Instead, we have been force-fed a set of ideas about doing good that actually accomplish the opposite. They prevent real progress.

Our logic has been sacrificed to ideology. That which we have been taught is good in itself—selflessness, the willingness to deprive ourselves—prevents us from doing real good in the world. That which we have been taught should upset our moral compass—profit, capitalism, the free market, the desire for personal material gain—is in fact the fuel that could power stunning change in the world. They could achieve morally superior outcomes.

Our charity is conducted within a context that measures morality by loyalty to the religion—loyalty to the means. It is not conducted within a context of what will produce the best end result and what will not. It is not conducted within the ultimately moral context. Predictably, then, we are taught to feel good or bad on the basis of things that don't make an impact or that unexpectedly make a negative impact, like modest executive salaries, donated equipment, donated advertising, low spending on administration and “overhead,” instead of on the basis of the real moral questions, like whether hunger is being ended or cancer is being cured. *We have been taught to judge morality by tactics without regard for the morality of the outcomes.*

For example, we are told by a charity that 80 percent of our donation goes to the cause. The newspapers tell us this is good, simply because it sounds frugal, but regardless of what charitable good is actually being done. Nevertheless, the charity wears that number on its sleeve and takes on a dangerous air of sanctimony.

We learn that someone has made a great deal of money in some charitable endeavor. We are taught to feel morally outraged, regardless of how much benefit the person has achieved. We learn that some charitable director's salary is modest. We are taught that this is good, regardless of the fact that she may be making little progress—regardless of the fact that someone who commanded a salary three times higher could make ten times the difference. What an inferior satisfaction is the good feeling v

get from a modest executive salary compared to the feeling we would have if we ended hunger on the earth. Gold stars over church bells. We have settled for scraps.

We are told that a charity's office equipment was donated instead of purchased. We are told this is good, regardless of the fact that the charity has to spend more time fixing broken computers than serving the needy. We learn that a charity's experimental fundraising event funded with donated contributions has failed. We are taught that this is morally reprehensible, regardless of what was learned or what breakthrough was being attempted. Over and over again, the morally inferior choice is labeled superior.

An ambitious reporter puts a sentimental photo of a child with leukemia in the newspaper and asks, "How can you be so cruel as to want to earn a profit from his situation?" I put up the photos of a million others like him and ask, How can you be so shortsighted as to deny me and a thousand others the monetary incentive it would take to devote our life's work to helping these children? You have just robbed them of our talents. What if your moral compass is wrong?

Ironically, by *denying* charity the tools of capitalism while *allowing* the for-profit sector to feast on them, we place charity at a severe disadvantage to the for-profit sector, on every front and at every level. The hands of charity are tied, while the for-profit sector scoops every penny off the economic table. Charity is segregated from the rest of the economic world. And this apartheid is the result of its own ideology. It is in the *name of charity* that capitalism is banished. Indeed, charity could not be undermined with more homage paid to charity.¹⁶ But the principal beneficiary of this charity is the for-profit sector. The poor are left to take some solace in the fact that charity observed all this discrimination with great frugality.

It is a further irony that we prohibit charity from using the tools of capitalism to rectify the very disparities some would claim capitalism creates. *We allow people to make huge profits doing any number of things that harm the poor, but prohibit anyone from making a profit doing anything that will help them.* Want to make a million selling violent video games to kids? Go for it. Want to make a million funding the cure for childhood leukemia? You are a parasite. *The illogic is breathtaking. The ramification is even more so: if free-market ideology could rectify the disparities some claim are created by free-market practices, isn't the nonprofit ideology that obstructs it the problem in the first place?*

The Illusion of Permission

As if this were not enough, the cultural pretense of the past decade is that capitalism in charity is encouraged. One of the cruelest and most dangerously disingenuous messages being preached to the nonprofit sector today is that it should act more like business—cruel because we don't allow it to, and dangerous because it creates the illusion that we do, preempting any initiatives for change under the guise of its already being under way.

When charities are told to act more like businesses they are, by and large, being told nothing more than to be more efficient, as if efficiency were a substitute for vision. The term is used in the narrowest sense—read: less money spent on overhead, with no understanding of what "overhead" really is and what it really isn't. Whoever believes that this and this alone is what it means to act like a business never ran a successful one. Great businesses grow on great vision. Efficiency is a secondary matter. How the business people who sit on the boards of our charities have allowed an obsession with efficiency to become conflated with what it means to act like business is one of the great mysteries of modern economic history.

No one in authority is suggesting that we give the nonprofit sector the far-reaching freedom to ~~really give to business~~. There is no new movement demanding that the nonprofit sector place efficiency a distant second to a great vision. It is simply not a discussion that is happening. It is sacrilegious to question the importance of efficiency.

No one is suggesting we open the floodgates of market-based compensation and high-stakes risk-taking to charity. No one is suggesting we let charity use our donated dollars to pursue a daring dream even if it might fail. While business advertises, charity is taught to beg. While business motivates with a dollar, charity is told to motivate with guilt. While business takes chances, charity is expected to be cautious. We measure the success of businesses over the long term, but we want our gratification in charity immediately. We are taught that a return on investment should be offered for making consumer goods, but not for making a better world.

Overlooking Critical Distinctions Separate from the preaching that charity should act more like business, there are a growing number of innovative social entrepreneurs and philanthropists who really are experimenting with capitalism to address some of the most vexing social problems of our time. The misleading notion is advanced that this means capitalism has come to charity. But it is being labeled something that it isn't. These reports overlook an important distinction, confusing change occurring in experiments *outside* the sector with some new freedom being given to those *inside* it. Alternatively, they confuse innovative program approaches with the ability of charities to use the tools of capitalism to *expand* those approaches. Or they confuse new measurements of effectiveness with new freedoms to achieve it. But in reality, the 700,000 active charities in America that we are asking to change the world are not being given new freedoms in any of these categories. Great as these new approaches are, they do not address the most critical issue—releasing charities from their anachronistic restraints.

New Philanthropists The new fortunes being made in technology have given rise to a slew of large new grant-making foundations. This is wonderful, but the erroneous leap is made that it signals the merging of capitalism and charity. The reality here is often simply that new capitalists are entering the world of philanthropy, often saddled with the same old ideas about the need for low overhead and low salaries. The only things new about it are the names and faces. Andrew Carnegie was a capitalist turned philanthropist. It didn't mean he integrated the two. We can have an entirely new generation of philanthropists and still be left with seventeenth-century charity.

I was at a meeting with the leaders of Google's new philanthropic efforts where bird flu was being discussed. It is hard to think of a more forward-thinking player than Google. Its foundation is actually funding for-profit social action initiatives (with Google money, which comes with a lot more freedom than funds donated by the public). But for this particular project, which *was* to be funded using traditional mechanisms, it was said that there should be no impression that anyone was earning profit. But this is the heart of the matter. If there were no opportunity for profit in business, there would *be* no Google. Even great corporate spirits like Google are indoctrinated in these old ideas. Where else would they abandon the profit motive on this most important of all endeavors? But where there is no incentive, how can there be any result that rises to a level any higher than a quaint gesture? *The sick and the poor are dying of quaint gestures. Do we really think it is comforting to the mother of a child who has just died of bird flu to be told that at least no one earned a profit in the failed effort to save her son?*

Flexible Philanthropy That said, a few of these new foundations are giving money to charity with few restrictions. Some, to their great credit, understand the need for charities to invest in infrastructure

This alone doesn't mean they have opened the gates to capitalism without restriction. Nevertheless, is encouraging. Much is made of it in the elite literature studying the cutting edges. But the grants of handful of innovators on the periphery do not cut the restrictive strings attached to the roughly \$30 billion donated annually to charity by society-at-large.¹⁷ The fact that a few lucky grantees are receiving some money without strings attached from a forward-thinking foundation doesn't mean the local soup kitchen, or even those few lucky grantees, will be getting any new freedom from the donating public, which doesn't read the social entrepreneurship articles coming out of think tanks. And none of the new philanthropic efforts are putting up funding to change the donating public mind. These few foundations are changing the way *they* give, but no one is trying to change the way *everyone* thinks about giving.

Venture Philanthropy There is also a new phenomenon being explored and practiced by some foundations and donors called "venture philanthropy," based loosely on the venture capital funding model of the for-profit sector. Venture philanthropy seeks to measure the effect of a dollar on the actual social problem a charity is established to address, rather than, or in addition to, measuring overhead. In other words, it is focused on the effectiveness of a charity's programs. These efforts are worthwhile, but they don't remotely address the real problem. Finding good charitable programs has never been the problem. The problem has been finding the capital to expand them on a mass scale. It is not for lack of knowing how to feed the hungry that people starve to death. It is for lack of half a trillion discretionary dollars.

We can "venture" into as many cutting-edge pilot program ideas as we want, but until we allow charity to venture into big-league risk-reward and other economic incentives, it won't ever have the capital to apply them on any meaningful scale. A little capital to experiment with programs is hardly the same thing as the freedom to practice capitalism, and a little capital is all venture philanthropy has right now, as compared, not only to the scale of the need, but also even to the size of the donation pool on which nonprofit ideology has its grip. The expansion of venture philanthropy thinking won't change that. It may result in existing funders adopting new measurements, but it won't result in new capital. The current venture philanthropy model isn't trying to find, or even claiming that it is trying to find, a path to the capital we need.

Moreover, there is an unintentional cruelty at work in the demand for charities to be more effective. It is a bit of the blood-from-a-stone syndrome. How can charities become more effective overall if we won't let them use the tools everyone else in the economic world uses as the fundamental *basis* for effectiveness? It is no blessing to throw a charity a million dollars to achieve a result and then tell that it must apply the same set of seventeenth-century rules that have heretofore left it incapable of achieving the result in the first place. The demand for a crop won't produce anything if you deny a man a plow. It doesn't matter if we change what we're measuring. If we don't change the rules, charities will never be able to measure up.

Micro-Finance What about Grameen *Bank's* micro-financing, for which Muhammad Yunus won the Nobel Prize? It has brought *billions* in capital to the poor. Isn't that capitalism applied to charity? It is capitalism applied to poverty, but it doesn't bring new economic freedom to the nonprofit sector in the United States. Grameen *Bank* operates in Bangladesh, outside of a traditional American nonprofit context. In the United States, there is a separate and independent Grameen *Foundation* that works to replicate the Grameen model. Grameen *Foundation* in the United States is nonprofit. *It can use the tools of capitalism to help the poor, but, like every other American nonprofit, it cannot use them to help itself. It cannot use them to increase*

its scale. It is a revolutionary model for helping the poor bound by our draconian rules for growth. It is like telling the Wright brothers that their new airplane is a great idea, but they must limit its use to the inside of the hangar.

For example, Grameen Foundation can give people the capital they need to build businesses, but cannot raise capital in the stock market to increase its ability to provide it. If it were to purchase the services of a high-priced CEO to help mastermind a massive expansion or undertake a major advertising campaign to bring in new long-term revenues, either one of which would raise its short-term overhead, our nonprofit mindset would come down on it like a guillotine. Donors would be outraged. So much for the tools of capitalism come to charity. It is a tragic irony of our system that Grameen Foundation's own annual report must go to great pains to reassure donors about how low it keeps its overhead—the very measurement that is the cornerstone of the old ideology and the embodiment of its restraints.¹⁸ If we permitted Grameen Foundation in the United States to spend more on “overhead” it could turn its millions in annual lending¹⁹ to billions, and we could instead be reading about how low we are keeping the level of global poverty.

Social Business What about some of the for-profit businesses that are being started to address social problems? They are amazing. I think they point the way to a new future. But we do charity a disservice when we mistake them for a signal that new economic freedom is coming to charities themselves. The simple fact is they are happening *outside* of the nonprofit sector. A 2008 article on the front page of the business section of the *New York Times* entitled, “A Capitalist Jolt for Charity,” writes of a philanthropic couple who were donating millions to an inner-city literacy charity.²⁰ But, ironically, in order to expand the work, “the once-struggling venture has morphed into a primarily for-profit enterprise.” They said that “this needs to be a large business to have a really significant impact. . . . We couldn't do what we're doing as a nonprofit.”²¹ This is hardly sign of a movement to rescue the nonprofit sector from its ideological prison. It is quite the opposite—a recognition that no rescue party is coming. It is a common-sense strategy on the part of some very smart people to stay away from the prison altogether. But at some point we have to start addressing what's going on inside the gates, because that's where all the donations end up. Three hundred billion dollars in annual giving (not to mention hundreds of millions more in fees from services) and millions of professionals are trapped there, unable to unleash their full potential because of their confinement. Average donors aren't telling them they can use those billions to morph into for-profit companies in order to escape.

A 2007 article in the *Atlantic Monthly* describes the ways Bill Clinton's foundation is helping to organize markets to bring low-cost AIDS drugs to developing countries and characterizes this on its cover as the reinvention of charity. But Bill Clinton himself says in the article, “This is not charity.” Bill Clinton's deal making with AIDS pharmaceutical companies is extraordinary, no question about it. But it will not change the fact that an AIDS charity will still be crucified if it tries to attract a pharmaceutical executive with the same kind of pay package Pfizer can offer him. It is ironic that the very same article that pronounces the reinvention of charity and the embrace of the profit motive closes by saying that many of the young employees of Clinton's foundation will go on to decades-long careers in “non-profits.”²² It is precisely this basis that needs reinvention.

Moreover, examples like this often exist in celebrity or affluent bubbles. The influence Bill Clinton has to do things in a radical new way is not enjoyed by a mid-level nonprofit executive who has to comply with the rules as they are in order to keep her job. Furthermore, the permission a billionaire has to do things in his own way, with his own money, doesn't signal an endorsement of these practices.

by the system-at-large, or sanction their use with the donating public's money. Let the first hungrier crusader be paid a multimillion-dollar salary, and the ensuing media crusade will soon inform us that the reinvention of charity is not close to being under way.

If a high-profile captain of business went down to skid row in Los Angeles and said, "I can get all these homeless people into housing within ten years, but I want to be paid fifty million dollars to do it," he'd be vilified. But the long-term economic benefit of this achievement would be worth far more than \$50 million. If he said, on the other hand, "I want to be paid fifty million dollars to sell five hundred million dollars worth of movies"—a few of them even about matters of social concern—his praises would be sung on the cover of *Time* magazine.

Literature Finally, with respect to the trade literature, there is an illusion that a new discussion is happening about changing charity, but in reality the discussion is about helpful ways to cope with the system as it is. One sees well-meaning and often very helpful management book titles with phrases akin to "Making Your Nonprofit Better," "Better Results for Nonprofits," and "Taking Nonprofits to the Next Level." Good as they are, they concede the fundamental validity of the nonprofit basis of the system even in their titles. Some border on celebrating it. We are having a discussion about how to make the best of an abusive spouse, when what we need is a new mate altogether.

Grace

We have soldiered along for centuries without questioning the ideology that underpins our notions of charity. We have done as we have been told, without asking why. Even the most radical among us have been moralized, coerced, or otherwise hypnotized into conformity. Here we have an ideology around which evangelical fundamentalists and radical feminists alike can rally. Here we have a doctrine on which there is precisely no difference of opinion between Ralph Nader and Dick Cheney. We have debated everything from the death penalty to gay marriage to the existence of God, but we have not questioned our approach to charity or any of the rules by which we have been forced to conduct it. It is a religion with no unbelievers.

It is time to start questioning it. It is time for a transformative conversation, heated and controversial though it may be, to replace the impotent one we *have* been having about how to manage within the existing dysfunction. We need a conversation worthy of our true intelligence and potential. A conversation about setting charity free. Free to experiment. To risk. To make mistakes. To think in the long term. To envision. To build. To spend. Yes, to spend. To dream. And to make those dreams real, in the same way Nike and Nintendo and all the other free-market enterprises do, and in pursuit of goals far less urgent. To achieve this we need full liberation, not moderation of the existing prison. We must liberate charity, without qualification, to use the same tools of capitalism and the free market that we allow business to use and that some claim have created the very disparities charity is supposed to rectify.

Our expectations of charity have grown enormously, but our understanding of it has remained primitive. Centuries ago the role of charity was narrow—to bring food or clothing to the sick or the needy in one's own village, on a face-to-face basis, or, in many cases, to convert souls. *Over time, however, we have thrust upon charity the responsibility for solving the world's greatest and most complex macro problems, from curing cancer to ending hunger.*

Charity has made the transition from individual to industry, but *our thinking* has not. The thinking that applies to helping one's neighbor will not suffice for solving the world's great problems. Micro-

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