

Charities and Disaster Relief Making Choices & Planning for the Future

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[1] When charities confront the issue of disaster relief, they do not need to operate like ships in uncharted waters. In fact, many of the issues they face are very similar to those confronted by the government in setting up tax and expenditure programs. Classic principles of public finance, such as equal justice, provide a framework and a set of standards against which actions can be judged in a rigorous, rather than anecdotal, way. At the same time, the limitations of any approach needs to be recognized up front. Here are conclusions that I draw in light of these principles to the charitable response in the wake of September 11.

Dealing With Issues of Fairness

[2] Charities clearly want to use their funds in a fair manner — progressively helping out most those who need help the most and giving equal amounts to those in equal need. These fairness goals, as indicated earlier, are close to that of the government when it engages in tax and transfer programs like the Earned Income Tax Credit. However, the government usually comes up with some formula that relates benefits to income as a way both to meet its goal of progressivity (by giving more to those with less income) and equal justice (by giving the same amount to those with equal incomes).

[3] The government has the advantage of collecting information on individuals through the Census, income tax, and other forms. This allows it to make predictions of exactly how much it will pay out under various programs. If the formula says that \$1,000 will be given to all families with less than \$10,000 of income, and \$500 to all families with income between \$10,000 and \$15,000, and there are 10 families in each category, then total payments will equal \$10,000 + \$5,000 or \$15,000.

[4] But the charities operating in the post-September 11 environment still have little idea of the income and assets of victims' families. As a consequence, they cannot predetermine a formula that insures that the money they pay out will be distributed in as progressive a manner as they desire. If they make benefits too high, moreover, then they will not have enough to pay out to everybody under that formula, and they will end up paying out some to those less deserving than others before the less deserving get around to applying for funds. If they make benefits too low, then they will have extra funds left over, and they face the danger of being subject to the initial criticism of the Red Cross: Funds collected on behalf of families may not be spent on those families.

[5] The response of some charities seems to be to take it one step at a time. Many are initially providing funds only for "emergency" relief or for immediate needs. One goal seems to be to insure that they do not overcommit their funds. Some are appropriately cautious because the coordination issue is compounded by the availability of other money through a government victim compensation fund and through pensions, annuities, and life insurance. Some, like the September 11 Fund, also seem to be leaving room for meeting later community needs, since people subject to other disasters like the Oklahoma City bombing have indicated that many needs arise as much as a year later.

[6] This last route seems eminently sensible. But, finally, there is the issue of individual equity, which places a premium on individual decisionmaking. If contributors clearly want their money spent on victims, even if the charity might believe there is some other compelling need like Afghanistani refugees, then those wishes deserve some recognition. A possible compromise here might be to approach the families of victims themselves to see how money in excess of current needs might be spent. Some without significant financial needs likely would be quite interested in seeing some money shifted to other compelling needs.

Advertising Honestly

[7] Charities are tempted to advertise in the wake of a crisis that they are there to help meet new needs that have arisen. Advertising is good when it presents useful information to the public, bad when it misleads. And some charities such as the American Red Cross were burned by adverse publicity after people thought they were advertising one thing and then did another.

[8] The simple fact is that many charities simply weren't prepared to deal with the crisis. Not that they should have been. But it does provide lessons for the future. Maybe some shouldn't "advertise" after all. But that wouldn't have resolved all dilemmas, as many people started sending them money anyway. Perhaps the best lesson here is that the better the charity is able to define what it is going to do with money up front and in its public statements, the better off everyone will be. Such advanced planning could also mitigate some of the fairness problems raised above.

Coordinating Activities

[9] Clearly, when many charities become involved, they can trip over each other. But coordination is not required simply to exchange information. To meet various goals of progressivity and equal justice, each charity ideally needs to know what other charities are doing. Again, there is an analogy with federal subsidy programs (which, in truth, are not always coordinated either). As for the charity that gathers only a little money, it is clear that there could be large efficiency costs in handling that amount, as well as the inevitable inequities likely to arise from a first-come, first-serve or word-of-mouth criterion for spending funds. Generally speaking, these charities would often meet all principles better by combining their efforts with others. From the standpoint of victims' families, moreover, coordination can remove a lot of aggravation and hassle. Some charities should just be honest and admit that other organizations are more readily able to meet the needs arising from the disaster.

Facing Up to the Inevitable Criticism

[10] When a lot of money is at stake, and competing principles do not always lead to a simple set of conclusions, criticism is inevitable. One person simply will put more weight on one standard than will another. The tendency of politicians is to shy away from these criticisms, often by not revealing well exactly what is going on in the programs they have sponsored. This inevitably leads to poor policy.

[11] A charity will have some of the same inclinations to hide what is going on, but they should be fought. The charity should simply indicate what principles it is applying, how it is applying them, and then face up to the criticism, whether justified or not.

Strengthening the Charitable Sector

[12] The charitable sector has no governing body controlling members. The problem it faces, therefore, is that bad advertising can "help" a particular charity while hurting the image and potential fund-raising of the sector as a whole. Similarly, the small charity may believe that it enhances its own future by running its own little program, no matter how inefficiently. However, the sector as a whole could witness lesser charitable giving as a result. Under these conditions, perhaps the best that various sector organizations like the Independent Sector can do is to set standards that it expects to be followed and then let watchdog groups determine when those standards are being violated. A strengthening of watchdog groups may also be needed to enhance the incentives for individual charities to abide by the standards.

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