

By PETER F. DRUCKER

America needs a new social priority: to triple the productivity of the nonprofits and to double the share of gross personal income—now just below 3%—they collect as donations. Otherwise the country faces, only a few years out, social polarization.

Federal, state and local governments will have to retrench sharply, no matter who is in office. Moreover, government has proved incompetent at solving social problems. Virtually every success we have scored has been achieved by nonprofits.

The great advances in health and longevity have been sponsored, directed and in large part financed by such nonprofits as the American Heart Association and the American Mental Health Association. Whatever results there are in the rehabilitation of addicts we owe to such nonprofits as Alcoholics Anonymous, the Salvation Army and the Samaritans. The schools in which inner-city minority children learn the most are parochial schools and those sponsored by some Urban League chapters. The first group to provide food and shelter to the Kurds fleeing from Saddam last spring was an American nonprofit, the International Rescue Committee.

Double Rehabilitation

Many of the most heartening successes are being scored by small, local organizations. One example: The tiny Judson Center in Royal Oak, Mich.—an industrial suburb of Detroit—gets black women and their families off welfare while simultaneously getting severely handicapped children out of institutions and back into society.

Judson trains carefully picked welfare mothers to raise in their homes, for a modest salary, two or three crippled or emotionally disturbed kids. The rehabilitation rate for the welfare mothers is close to 100%, with many of them in five years or so moving into employment as rehabilitation workers. The rehabilitation rate for the children, who otherwise would be condemned to lifetime institutional confinement, is about 50%; and every one of these kids had been given up as hopeless.

The nonprofits spend far less for results than governments spend for failures. The cost per pupil in the New York Archdiocese's parochial schools—70% of whose students stay in school, stay off the streets and graduate with high literacy and salable skills—is about half that in New York City's failing public schools.

Two-thirds of the first-offenders paroled in Florida into the custody of the Salvation Army are "permanently" rehabilitated—they are not indicted for another crime for at least six years. Were they to go to prison, two-thirds would become habitual criminals. Yet a prisoner costs at least twice as much per year as a parolee in the

custody of the Salvation Army.

The Judson Center saves the state of Michigan \$100,000 a year for each welfare mother and her charges—one-third in welfare costs and two-thirds in the costs of keeping the children in institutions.

Though the majority of the students in private colleges and universities get some sort of financial aid, their parents still pay more than do the parents of students in state universities and colleges. But the state-university student's education actually costs a good deal more than (in some states twice as much as) that of the student in a private nonprofit institution—with the difference paid by the taxpayer.

Drucker on Management

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The nonprofits have the potential to become America's social sector—equal in importance to the public sector of government and the private sector of business. The delivery system is already in place: There are now some 900,000 nonprofits, the great majority close to the problems of their communities. And about 30,000 of them came into being in 1990 (the latest year for which figures are available)—practically all dedicated to local action on one problem: tutoring minority children; furnishing ombudsmen for patients in the local hospital; helping immigrants through government red tape.

Where 20 years ago the American middle class thought it had done its social duty by writing a check, it increasingly commits itself to active doing as well. According to the best available statistics, there are now some 90 million Americans—one out of every two adults—working as "volunteers" in nonprofits for three hours a week on average; the nonprofits have become America's largest "employer."

Increasingly these volunteers do not look upon their work as charity; they see it as a parallel career to their paid jobs and insist on being trained, on being held accountable for results and performance, and on career opportunities for advancement to professional and managerial—though still unpaid—positions in the nonprofit. Above all, they see in volunteer work access to achievement, to effectiveness, to self-fulfillment, indeed to meaningful citizenship. And for this reason there is more demand for well-structured volunteer jobs than there are positions to fill.

Some observers (such as Brian O'Con-

nell, head of Independent Sector, the national association of the large nonprofits) believe that, within 10 years, two-thirds of American adults—120 million—will want to work as nonprofit volunteers for five hours a week each, which would mean a doubling of the man- and woman-power available for nonprofit work.

And the nonprofits are becoming highly innovative. When some friends and I founded the Peter F. Drucker Foundation for Non Profit Management a year ago, we planned as our first public event a \$25,000 award for the best innovation that would "create a significant new dimension of non profit performance." We hoped to

receive 40 applications. We received 809—and most were deserving of a prize.

The actual award went to the Judson Center, but the big nonprofits are as innovative as the small fry in many cases. With several billion dollars in revenue, Family Service America—headquartered in Milwaukee—has become bigger than a good many Fortune 500 companies; it now is probably the biggest American nonprofit next to the Red Cross. It has achieved its phenomenal growth in part through contracting with large employers such as General Motors to help employee families with such problems as addiction or the emotional disorders of adolescent children.

For the nonprofits' potential to become reality, three things are needed. First, the average nonprofit must manage itself as well as the best-managed ones do. The majority still believe that good intentions and a pure heart are all that are needed. They do not yet see themselves as accountable for performance and results. And far too many splinter their efforts or waste them on non-problems and on activities that would be done better—and more cheaply—by a business.

Second, nonprofits have to learn how to raise money. The American public has not become less generous—there is little evidence of the "compassion fatigue" nonprofit people talk about. In fact, giving has been going up quite sharply these past few years—from 2.5% of personal income to 2.9%. Unfortunately, a great many nonprofits still believe that the way to get money is to hawk needs. But the American public gives for results. It no longer gives to "charity"; it "buys in." Of the charita-

ble appeals most of us get in the mail every week, usually just one talk of results—the one that gets our check.

The nonprofits will have to get the additional money they need primarily from individuals—as they always have. Even if there is government money—mainly via vouchers, I expect—and money from companies, they can supply only a fraction of what is needed.

Finally, we need a change in the attitude of government and government bureaucracies. President Bush has spoken glowingly of the importance of the nonprofits as the "thousand points of light." If he really believes this, he should propose allowing taxpayers to deduct \$1.10 for each dollar they give to nonprofits as a cash donation. This would solve the nonprofits' money problems at once. It also could cut government deficits in the not-so-very-long run—for a well-managed nonprofit gets at least twice the bang out of each buck that a government agency does. Some of the voucher programs already enacted cut public school budgets, since some of the district's per-pupil spending moves with the child into the private sector.

Instead of such a policy, however, we have the IRS making one move after the other to penalize and to curtail donations to nonprofits—and the tax collectors of the big states are all doing the same. Each of these moves is presented as "closing a tax loophole"; in fact, none has yielded a penny of additional revenue and none is likely to do so.

First Line of Attack

The real motivation for such actions is the bureaucracy's hostility to the nonprofits—not too different from the bureaucracy's hostility to markets and private enterprise in the former Communist countries. The success of the nonprofits undermines the bureaucracy's power and denies its ideology. Worse, the bureaucracy cannot admit that the nonprofits succeed where governments fail. What is needed, therefore, is a public policy that establishes the nonprofits as the country's first line of attack on its social problems.

In my 1969 book "The Age of Discontinuity" I first proposed "privatization," only to have every reviewer tell me that it would never happen. Now, of course, privatization is widely seen as the cure for modern economies mismanaged by socialist bureaucracies. We now need to learn that "nonprofitization" may for modern societies be the way out of mismanagement by welfare bureaucracies.

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