

Unhealthy Charities

UNHEALTHY CHARITIES: HAZARDOUS TO YOUR HEALTH AND WEALTH

By James T. Bennett and Thomas J. DiLorenzo
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America's major health charities are rarely criticized because they are considered "sacred cows," so the public's perception of them is based almost entirely on the health charities' own self-serving propaganda. *Unhealthy Charities*, by economists James T. Bennett and Thomas J. DiLorenzo, provides an long-over-due, indepth investigation of these organizations. Their goal: a thorough, carefully documented analysis of the programs and expenditures of the American Cancer Society, the American Heart Association, and the American Lung Association the "Big Three" health charities. Their findings are shocking.

Unhealthy Charities explains in detail how the Big Three have strayed far from their charitable missions and how they mislead the public about their spending and activities. They accumulate vast wealth while claiming in their relentless fundraising appeals that money is urgently needed for programs; they virtually ignore the needs of the poor while spending tens of millions of dollars each year to educate affluent health professionals; provide executives and staff lucrative salaries and benefits; spread confusion rather than information about disease; impede rather than facilitate disease research; and use their political clout to try to eliminate new charities that seek to fill the service voids left by the Big Three.

These criticisms are harsh, but the authors, who have written several other books about nonprofits, present voluminous documentation, insightful and easily understood analyses, and carefully developed reasoning to support their conclusions.

What most readers of *Unhealthy Charities* will find surprising if not galling is that the Big Three ceaselessly seek donations from the public while they hoard vast wealth in stocks, bonds, certificates of deposit, real estate, automobiles, and other assets. At the end of fiscal year 1993, for example, the ACS had a net worth of \$520.3 million enough to operate at 1993 levels for 16 months without additional income. The ACS owns more than \$15 million worth of land; buildings that originally cost over \$92 million; and more than \$51 million in equipment, including autos.

Each year, tens of millions of dollars collected from ordinary Americans are used to subsidize the education of medical professionals who are among the nation's highest income earners. Yet, in 1989, the ACS published *Cancer and the Poor*, a report showing that the needy are not being adequately served and suffer disproportionately from cancer. This "Robin Hood in reverse" or "welfare for the welltodo" is unjustified in view of the suffering of millions of needy disease victims.

The authors note some egregious examples of inappropriate uses of funds. For instance, in 1986, the Colorado Division of the ACS received a bequest of more than \$3 million, money which could have been used to help indigent cancer victims in Colorado. But the endowment only provided interest and dividend income until 1993 when \$300,000 was used for a new headquarters building for executives and staff.

Executives and staffs are among the primary beneficiaries of health charities. The authors reveal that "the single most important spending category for state divisions [of the American Cancer Society] is executive and staff compensation, a surprising result for an organization that describes itself as 'volunteer'." In a sample of ten ACS state affiliates, staff compensation ranged from 45 to 60 percent of total expenditures, and six-figure salaries are "commonplace at ACS national headquarters and for top executives at the state divisions."

Most donors are probably unaware of such facts, nor are they ever likely to learn (unless they read *Unhealthy Charities*) about such things as how ACS California held its 1992 annual meeting at a Hilton Hotel, and, in only three days, ACS California officials signed twenty-three banquet, restaurant, and bar tabs totaling \$13,480.56!

Huge sums are spent each year purportedly "educating" the public about disease. But *Unhealthy Charities* reveals that much of the information is confusing, contradictory, or so commonsensical that it is worthless. Health charities claim that funds are badly needed for research because so little is known about disease, so how can they possibly "educate" the public about diseases that even medical professionals do not understand?

The authors argue convincingly that the Big Three actually impede, rather than facilitate, research by controlling the research agenda on their respective diseases and ensuring that research funds go almost exclusively to "mainstream" researchers. This control is achieved by political links between the health charities and their respective institutes at the National Institutes of Health and through the charities' involvement with the medical profession. Consequently, research is centralized; conformity is stressed; new or alternative approaches are discouraged; and, because of the medical profession's self-interests, "cures," rather than disease prevention, are emphasized.

By controlling the funding and direction of disease research and establishing themselves as "the sole, selfless guardians of 'the truth' about disease and health, [the Big Three] will always be the major recipients of the public's contributions to health causes," the authors conclude.

Worse, the major health charities have unjustifiably labeled new health charities as scams, and nontraditional researchers as "quacks." Although some "scams" and "quacks" do exist, *Unhealthy Charities* documents how the Big Three try to unfairly portray all charities that compete with them for donations in that way.

The Big Three, along with charity rating agencies such as the National Charities Information Bureau, often condemn the high proportion of fundraising costs for newer health charities in comparison with those of well-established groups. But such comparisons are unrealistic and unfair, since the newer charities must incur startup costs that older, more established organizations no longer have.

Furthermore, the authors write, the Big Three health charities' administrative and fundraising costs are much higher than they want the public to believe. They play accounting games to reduce their reported administrative and fundraising costs. A retired ACS executive with 25 years of service with the ACS [is quoted] as saying, "It is terribly easy for a staff person ... to ... place 'fundraising activity' (which the public identifies as bad) under some activity as 'public education' (which the public

identifies as a 'good' use of funds)" to disguise fundraising costs. "There is ample evidence," the authors conclude, that the major health charities "write off much of their fundraising costs as public education or other program expenses to inflate the reported spending for program services and to reduce reported fundraising costs." "There's vast misrepresentation of expenditures going on right now, and it's growing. People are being duped. They are being lied to," says Kenneth Albrecht, president of the National Charities Information Bureau.

But what about charity "watchdogs," such as the National Charities Information Bureau and the Philanthropic Advisory Service of the Better Business Bureau? Don't they detect and expose such abuses? Despite having the best intentions, Professors Bennett and DiLorenzo assert that these organizations are really "toothless." Their data are hopelessly incomplete and mistakes are made, such as the NCIB's approval of Covenant House in March 1990, less than a week before the organization's founder and director resigned amid allegations of sexual misconduct and financial irregularities.

Because the watchdogs base their ratings primarily on the charities' financial statements and these statements "can conceal as much information as they reveal and may contain as much fantasy as fact," the ratings are inherently flawed. *Unhealthy Charities* explains in detail and in terms the layman can understand how financial statements can be misleading. Put simply, it is impossible to determine whether a charity is good, bad, or indifferent based on its financial reports because the cost of providing a service is reported as part of the service. The so-called watchdogs probably "do more harm than good," according to Bennett and DiLorenzo, because "their evaluations clearly favor older, larger, and national charities at the expense of newly formed, small, and local organizations."

Unhealthy Charities is not merely an analysis of the shortcomings or failures of some of the larger health charities. The authors point out that because of their ability to garner the assistance of millions of volunteers, "health charities have a capacity unmatched by any other institution to offer newly diagnosed disease victims and their families help in overcoming the worry and mental anguish that inevitably accompany a diagnosis of serious illness."

In chapter seven, "Sweet Charity: Patient and Community Services," the authors show how health charities do provide programs that benefit the victims of disease, their families, and the public at large. These benefits arise from the work of the volunteers who provide patient care and community services, such as disease screening. The Big Three could do far more to benefit the public and to alleviate the nation's health care crisis, "if they reduced their spending on public and professional education and on research and used these resources to aid disease victims and to provide community services" and if far more emphasis were placed on the public's health and far less on the charities' wealth.

Perhaps the most important message in *Unhealthy Charities* is that America's health charities have vast financial resources as well as the commitment of millions of volunteers that could be used in the battle against disease, but these resources are not now being effectively used. Bennett and DiLorenzo diagnosis the problem: the Big Three benefit primarily their executives and staffs and the disease establishment and prescribe a cure: health charities must be forced to return to their traditional charitable missions. More governmental regulation is not needed to

accomplish this goal; rather, all charities should be required to open their books to any party interested in knowing how the organization's funds are spent and who receives the services.

This book is essential reading for anyone interested in charities and, especially, health charities. Try [www. Amazon.com](http://www.Amazon.com) for its purchase.