The Private Corporate Sector And Public Welfare In The United States : The Changing Social Contract Agenda

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The tradition of corporate giving, or philanthropy, in the United States finds its origins in private actions taken by individuals--Andrew Carnegie, Rockefeller, and the Ford family -- early in American's industrialization history, While essentially the acts of private wealthy citizens, this "wealth" was acquired largely through family-- owned business. Accordingly these business had no direct contact with, nor responsibility for, making decisions as to where charitable gifts and donations were to be made.

It was not until after World War II that one might conclude that the era of U.S. corporate philanthropy began in significant fashion. After 1946, many of the large, family-owned companies became public companies; i.e., shares in the company were offered to the public and ownership gradually passed from family members to thousands of shareholders. In the early 1950's, in an important New Jersey Supreme Court case, a shareholder in a A.P. Smith Manufacturing Company sued the company for making a donation of $1,500 to Princeton University, arguing that, "this was an improper use of corporate funds." The court did not agree and ruled:

When the wealth of a nation was primarily in the hands of individuals they discharged their responsibilities as citizens by donating freely for charitable purposes but[with] the transfer of wealth to corporate hands and the imposition of heavy burdens of individual taxation, they[individuals] have been unable to keep pace with increased philanthropic[public welfare] needs. They have therefore, with justification, turned to corporations to assume the modern obligations of good citizenship in the same manner as humans do. Source· A. P. Smith Mfg. Co. vs Barlow, 97A.2d 180 (Super. Ct NJ 1953)

In effect, the court ruled that corporations, beyond having the task of providing employment and goods and services had the additional responsibility to provide charitable assistance. American businesses were free to make money; but in addition, society expects them to be supportive of community needs in return.

This court ruling ushered in the modern era of corporate citizenship in the United States. Thereafter, hundreds of U.S. companies established foundations which received their financial resources from corporate operations. As time passed, many corporations would also establish direct corporate giving programs. And finally, many corporations have in addition to establishing foundations and direct giving programs provided resources to their employees in order to encourage them to become involved in the community. Through programs of "matching gifts," where the corporation matches the gift of an employee to a charitable cause selected by that employee, the corporation enables and encourages their employees to support community needs.

The combination of these corporate approaches--establishing foundations, direct corporate giving programs, and employee matching funds initiatives--resulted in approximately $6.1 billion being given to community causes in 1994. This sum might loosely be interpreted as the direct social transfer payments made by the private corporate sector in the fulfilling of its "good corporate citizenship" requirement.

The U.S. Private Corporate Sector and the Public: Is There a Social Contract?

The U.S. government has never really sought to control large segments of the private economy nor has it ever had a strong socialist constituency in the political process. Taxation of the private sector has been kept intentionally low, considerably lower than is the case in dither Western Europe of Asia where the national governments are expected to provide extensive social welfare programs. It is not surprising then that one finds that corporate philanthropy in Europe and Asia is of considerably smaller scale than is to be found in the United States.

This propensity to keep corporate taxation low, even to reduce it to still lower levels given the current political mood in the U.S. Congress, is in part tied to the expectation that the private corporate sector will make philanthropic of social investments in America's thousands of communities. The low corporate tax structure has been augmented by the providing of tax breaks on corporate charitable contributions as well to insure that these transfer payments are made. The U.S. government does not even seek to specify to what causes or purposes these corporate social transfer payments ought to be directed, requiring only that those receiving them be "qualified as legitimate and legally established not-for-profit organizations."

During the period, 1955-1985, private corporate giving has for the most part been consistent in the type of community purpose to which the funds are being directed. The largest recipients, by category, have been medicine and health (with the majority going to medical research); education (with a high proportion going to higher educational institutions, i.e., colleges and universities); and, the arts and culture. By the mid-1980s, these "public causes" were receiving almost 70 percent of total corporate giving. For example, in 1987, medical and health received 26 percent, education 25 percent, and arts and culture 17 percent of total corporate contributions.

What types, or categories, of public welfare needs were receiving the least? In the same year, local community social services received about 1 percent, the environment 3 percent, secondary (high school) education about 4 percent, international affairs and public policy about 2 percent, and early education (K-8, or elementary school) about 2 percent. Funding for minority causes, e.g., educational opportunity for Black Americans or Hispanics, was for the most part minimal.

One might ask whether this giving pattern is consistent with either a rigorous interpretation of what public welfare is or how corporate social responsibility best serves the priority needs within this interpretation. Put another way, was the corporate sector providing added value in terms of real social needs during this period, 1955-1985?

In this initial period of the development of private corporate sector giving it did not seem to matter what a business was giving for or what impact this giving may or may not have been having; instead, evidence that it was giving for charitable purposes seemed to be adequate. Those receiving the gifts were quite happy that corporations attached little or no conditions to the funds being dispensed, and that only in very rare cases did the corporation have any requirements as to how the funds were to be spent or expect any full accounting or evaluation of the results achieved. There were, of course, notable exceptions since a number of corporations took their corporate philanthropic efforts quite seriously.

In the abstract, a social contract can of course exist between the private corporate sector and the public without its terms actually being fulfilled. It is difficult to determine who is to judge whether during this 30-year period corporate philanthropy adequately served this "social contract," the terms of which were only very broadly implied in the 1953 court decision. Part of that decision has rightly been interpreted to mean that it is the corporation that is making the charitable donation that has the right--and just possibly the legal obligation, to determine what public welfare and community causes that are to receive its funds.

A form of free market can actually define what are the critical needs to be incorporated in a social contract. Changes in the demand for social services such as health care, care of the aged, more equality in access to education, employment and the distribution of income, equality between the sexes in wages and salaries paid, and protection of the environment and environmental resources to insure economic sustainability are but a few that would comprise any contemporary definition of the sustainability are but a few that would comprise any contemporary definition of the terms of a social contract.

However, in the United States, the government historically has not sought to more sharply define what the social contract between the private corporate sector and the public includes in the way of social action priorities. As noted, corporations could pick and choose as they saw fit. It is almost axiomatic that given this approach, a large number of corporate donors acting individually might not necessarily choose to fund of provide assistance to the most critical issues It would largely be a matter of chance or in some cases, the corporation might undertake a serious professional effort to determine where its funds are most needed.

I conclude that since the early 1950s, a form of social contract has existed between the private corporate sector and the public. This contract was the most general in outline, but its terms at a minimum established the obligation of U.S. corporations to engage in corporate giving to the community. This is no small accomplishment, and the learning that U.S. corporation that may not have taken is giving program all that seriously. Importantly, a number of major U.S. corporations did develop very sound and often quite innovative programs addressing critical public social concerns and community development needs. While in the minority. such firms nevertheless now serve as important models for the corporate sector as a whole as the newer dimensions of the social contract begin to take shape and form.

From the altruistic to Strategic and Competitive Corporate Philanthropy : "Bottom-lining" the New Social Contract Agenda

Since 1985, three major factors have served to fundamentally alter the role of the private sector with respect to serving public welfare needs in U.S. society.

Competitive change on a global scale has irrevocably altered the way in which corporations must now compete.

New technologies, particularly information technologies, enable corporations to move administrative and production facilities at will, guided by least-cost, quick turn -around time production facilities can be feasibly located.

National, state and local governments, while still very important, are less able to meet the public's demand for social services that are effective and of high quality.

These are affecting the private sectors of all nations, but the primary focus of this paper is the situation in the United States.

The U.S. government has since the Reagan presidency been applying greater pressure on the private sector to assure more responsibility for community social service and welfare needs. The logic for this is to be found in the agenda for the Republic Party, the main tenets of which are that the tax burden and the government bureaucracy-at all levels - must be reduced.

This occurs at a less than opportune time for the U.S. private corporate sector.

The rapid change in global competition has meant that for most corporations, they have had to downsize their production and administrative operations, resulting in hundreds of thousands of jobs disappearing. While thousands of new jobs have been created, most of these pay considerably less than that have been lost.

The net effect of the political change in the U.S. and the impact of competition is that corporations are undergoing a complete review of their philanthropic activity.

"New-era" corporate philanthropy must now be "strategic" and is only defensible as a corporate obligation to the extent that it contributes to business purpose, to the "bottomline". Corporations ,while down-sizing and laying off thousands of employs are simultaneously asked to increase their resources in support corporate responsibility and serve a much broader social contract agenda than has previously been the case

To speak of trends at a time like this in U.S. corporate sector history is believe a rather ambitious exercise. Some corporations (e.g.,international Paper Corp.) are doing away altogether with their corporate philanthropic effort ; far more (e.g., IBM that has reduced annual giving from a high of $180 million in 1992 to just over $60 million in1995 ; ARCO, reducing a staff of 9 to 1 person and expenditures from about $17 million to $9 million ; etc.) are downsizing , both in professional staff involved and financial resources provided; and almost all those involved in corporate philanthropy are now required to demonstrate in quantitative terms the impact that corporate giving has on business results.

Although in some U.S. corporate situations, this has been a very negative process, in others it is leading to the emergence of a more serious and professional form of corporate giving. In these firms, there is a realization that, the Republican Party-political agenda aside, it is time to get quite serious about how best to serve public needs through corporate philanthropy. In these instances, there is a strong desire to move away from just giving money to good cause. These firms want to expand corporate volunteerism and devise innovative ways in which the experience of the private corporate sector-in organizing and managing goals and objectives, in marketing, in bringing technology to productive purpose, in human resources to productive outcomes-can find application in delivery of social welfare services. Such corporations may at the present time be few, but again and as in the prior 30 years in which corporate philanthropy had its beginnings, new models for corporate action in the community are emerging

Contemporary U.S. government attitudes asides, the new social contract agenda has literally defined itself by the large increase in high-school dropouts, poor quality and expensive health care, crime, environmental degradation on an unprecedented and global scale, poor quality education and societal inequality in many forms. The realistic enlightened corporation recognizes two things in this regard. The private corporate sector, cumulatively, does not nearly command the financial or humane resources necessary to effectively address the full range and complexity of public welfare issues in evidence in the United States. And, most of these public welfare issues, if they remain unresolved, will affect the corporate sector's bottom-line in the form of lack of productivity, soaring health costs, drug-abuse on the job, and overall, declining natural, financial and human resource with which to compete. Some of the more visionary corporate thinkers conclude that what we may be really dealing with is the future of capitalism itself.

In the past 10 years, the rather begin and on occasion, indifferent character of corporate giving has had to alter significantly. While some would define both the ambiguity and indifference as consistent with being "altruistic",i.e., avoiding the temptation to link business purpose with "doing good things" in the community, believe the real lesson may be that this approach is no longer affordable-to the corporation or the community

In my opinion, the most useful welfare role for the private corporate sector to assume in the United states, in addition to providing real financial and human resources to the community, is that of research and development..

The R & D function is a major component of remaining competitive just as is strategic planning applied to critical questions of market sustainability. those organization that work to better communities are not always able to afford the costs involved in such R&D on afford how best to approach the resolution of major public welfare issues, nor can they afford professional advice as to how best to organize strategically to serve these social needs.

In addition, because the private sector is often noted for innovation, it can work out possible solutions that would affect government policy using its social issue R&D approach.

In the most recent history of U.S. corporate philanthropy this was accomplished in the field of youth service. In the mid-1980s, several corporate foundations. The Hitachi Foundation among these, developed programs that encouraged and made possible a dramatic growth in youth volunteer services.

Subsequently, then President George Bush inaugurated the Points of Light program, a government initiative to recognize American youth who had made a strong commitment to community services. President Clinton, early in his Administration took it one step further in establishing the federally-funded AmeriCorps program that enables young volunteers to earn money toward further education by doing community service. This is but one example of the positive application of the R & D and innovative processes of the private corporate sector influencing public policy.

It is not possible at this time to determine just how extensive a commitment the corporate sector will, or can, make to the new social contract agenda. If the response is only minimal, and as uncoordinated as in past, then in all probability the private sector will bring very little that is new or positive in the way of solutions for the social issues that are now evident throughout U.S. society, indeed throughout the world in many cases. Such an eventuality will carry with it real costs to the private corporate sector, costs that may ultimately be expressed in ways quit detrimental to the private sector and its viability as the preferred method of economic organization in the future.