

History and theory of the nonprofit sector

January 18, 2022

PMAP 3210: Introduction to Nonprofits
Andrew Young School of Policy Studies

Do your check-in!

Plan for today

Why do nonprofits even exist?

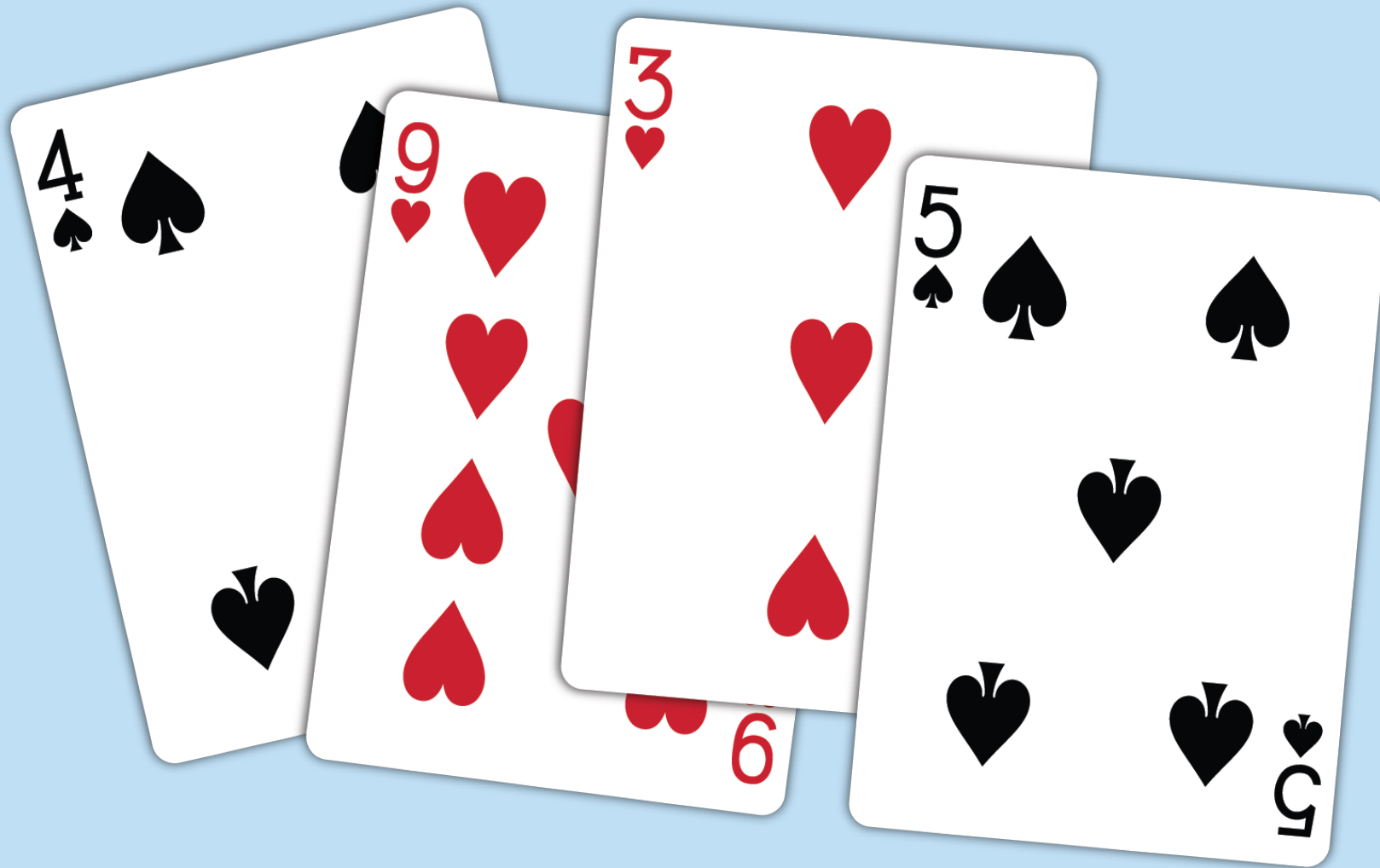
Theory part

Why do nonprofits even exist?

History part

Why do nonprofits even exist?

(Theory part)



Public goods

Non-excludable

Not possible to stop others from using the good or service

Non-rivalrous

One person using the good or service doesn't prevent anyone else from using it

Types of goods

	Excludable	Not excludable
Rival		
Not rival		

Types of goods

	Excludable	Not excludable
Rival	Private goods	

Not rival

Types of goods

	Excludable	Not excludable
Rival	Private goods	
Not rival	Club goods	

Types of goods

	Excludable	Not excludable
Rival	Private goods	Common pool resources
Not rival	Club goods	

Types of goods

	Excludable	Not excludable
Rival	Private goods	Common pool resources
Not rival	Club goods	Public goods

Rivalry and excludability

A free public lecture at a university

Noise produced by aircraft around an airport

A forest used by the community to collect firewood

Hamilton tickets

A public park

Bird/Lime/Uber scooters

Government failure

The government doesn't provide public goods or services like it should

Nonprofits can fill those gaps

How to recognize if a nonprofit is fixing this:
ask "could the government do that instead?"

Examples?

Market failure

The private sector doesn't provide goods or services because there's no incentive

Nonprofits can fill those gaps

How to recognize if a nonprofit is fixing this:
ask "Could/should the private sector do that instead? Why aren't they?"

Examples?

Transaction costs

Fixing public goods issues is expensive!

Time, effort, money, resources

Nonprofits can work more quickly and have more connections to communities, making it easier and cheaper to provide services

Externalities

A cost or benefit to someone who did not choose that cost or benefit

Pollution

Vaccinations

Cell phones and driving

Internet bandwidth

Research

Education

**Nonprofits can help mitigate negative ones
and promote positive ones**

Contract failure

Principal-agent theory + information asymmetry

Good or service too complex for consumer to understand

Consumer not competent to understand

Purchaser not ultimate consumer

**Nonprofits have inherent trust, or "halo" effect;
no assumption that organization
is trying to exploit the consumer**

Pluralistic theory

Even if government is competent and can provide public goods, nonprofits are seen as less bureaucratic and more responsive

Nonprofits...

...encourage individual action for the public good

...create stronger societies

...respond better to the needs of diverse societies

**In small groups, think of
two different nonprofits**

Why do these organizations exist?

What are the differences and similarities of these organizations?

**What need do these organizations fill?
Government failure? Market failure? Something else?**

Would the work be more efficient if done by the government or private companies? Or are nonprofits the best route?

Do people trust these nonprofits? Can they reach out to diverse groups better or worse than the government or private companies?

What would happen if the nonprofit failed?

Why do nonprofits even exist?

(History part)

Six characteristics of nonprofits

Formal organization

Non-profit-distributing

Private

Self-governing

Voluntary

Operating for public benefit

British Colonies

1601 Elizabethan Statute of Charitable Uses

British Colonies

1601 Elizabethan Statute of Charitable Uses

British Colonies

Formal organization	Mostly in churches
Private	Government control
Income sources	Mostly tax supported
Self-governing	Government control
Voluntary	Yes
Public benefit	Poverty and education

New Republic (1787+)

Two big changes

Separation of church and state

First amendment right of association

Dartmouth v. Woodward (1819)

New Republic (1787+)

Formal organization	Corporations
Private	Arbitrary state charter
Income sources	Private sponsorship
Self-governing	Boards
Voluntary	Yes
Public benefit	Poverty and education

19th Century



James Smithson

"Charitable purposes"
expanded to include
arts and museum

19th Century



Alexis de Tocqueville

"I have seen Americans make great and real sacrifices to the public welfare and have noticed a hundred instances in which they hardly ever failed to lend faithful support to one another."

19th Century

Formal organization

Religious resurgence

Private

Arbitrary state charter

Income sources

Donations and earned income

Self-governing

Boards

Voluntary

Yes

Public benefit

Add arts and museums

1900–1960

Two big changes

16th amendment (ratified 1913) creates a federal income tax

Tax exemption for nonprofits (1913)

Tax deduction for donations (1917)

Definition expanded to include science and research

1900–1960

Formal organization

Corporations and trusts

Private

Broad state charter

Income sources

Donations and earned income

Self-governing

Boards

Voluntary

Yes

Public benefit

Add scientific research

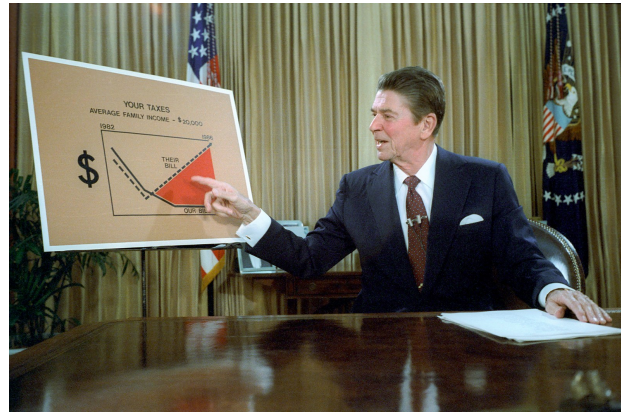
1960–2000

War on
Poverty



Increased
federal funding

Neoliberal
privatization



Explosive growth &
professionalization

Rise in
secularization



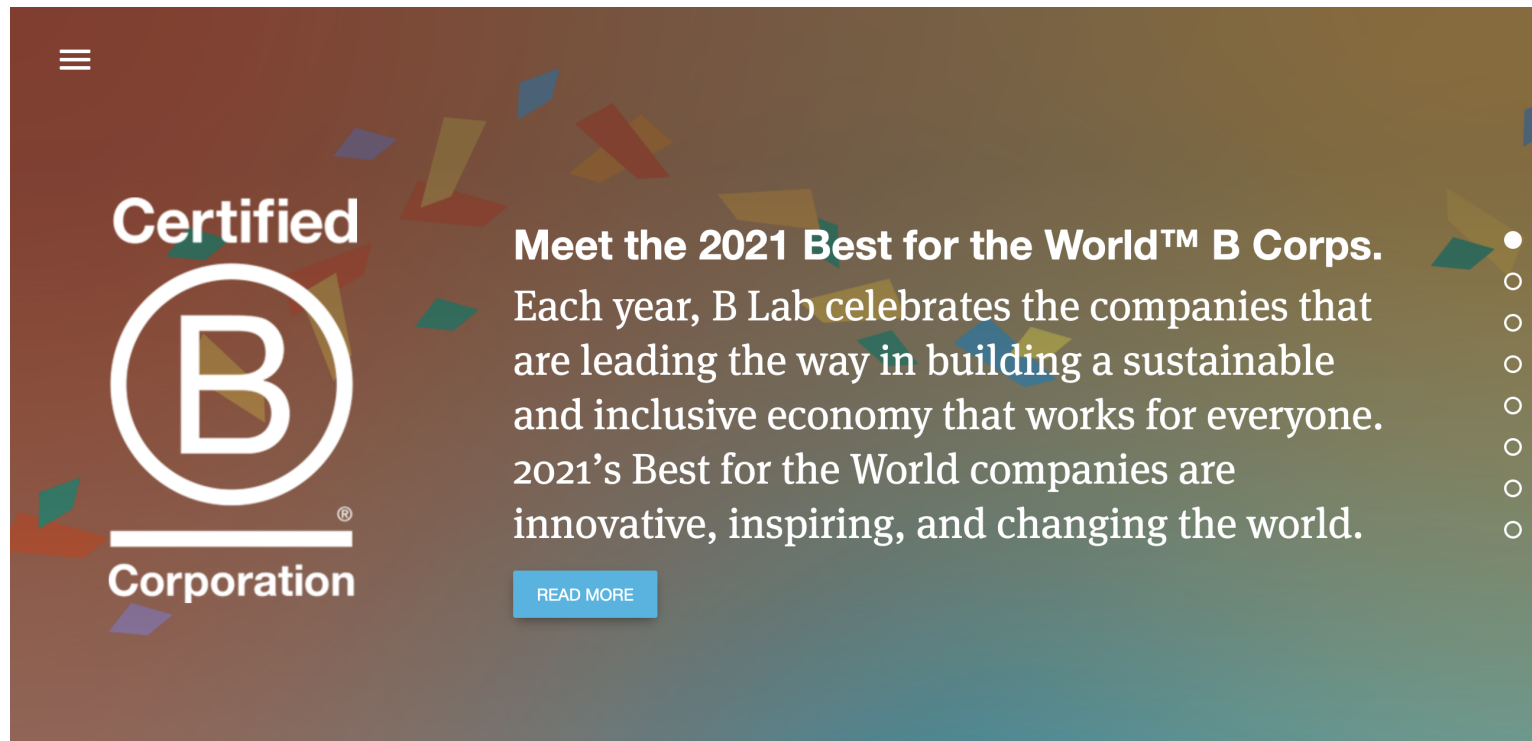
Increase in non-
religious nonprofits

1960–2000

Formal organization	Corporations
Private	Simple charter
Income sources	Mostly earned income
Self-governing	Boards
Voluntary	Yes
Public benefit	IRS categories

2000–today

Social entrepreneurship and sector blending



The image is a screenshot of a website banner for B Lab's 2021 Best for the World B Corps. The banner has a dark brown background with a teal gradient at the bottom. On the left, there is a white logo consisting of the word "Certified" above a large white letter "B" inside a white circle, with a registered trademark symbol (®) to the right of the circle, and the word "Corporation" below a horizontal line. To the right of the logo, there is a paragraph of text in white: "Meet the 2021 Best for the World™ B Corps. Each year, B Lab celebrates the companies that are leading the way in building a sustainable and inclusive economy that works for everyone. 2021's Best for the World companies are innovative, inspiring, and changing the world." Below this text is a blue button with the text "READ MORE" in white. On the far right, there is a vertical list of seven white circles, with the top one filled and the others empty. The background of the banner is decorated with colorful, abstract geometric shapes in shades of blue, red, and gold.

☰

Certified

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Corporation

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[READ MORE](#)

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2000–today

Formal organization	Sector blending
Private	Simple charter
Income sources	Mostly earned income
Self-governing	Boards
Voluntary	Yes
Public benefit	IRS categories

Questions

Are the roles of nonprofits and government properly balanced?

What does the religious history of nonprofits mean to us today?

Why is the corporation so important to nonprofit history?

Should "charitable purpose" be broader or narrower?

Why do we feel a need to treat nonprofit money differently?