Nonprofit organizations provide an intriguing alternative institutional form for provision of services in higher education, health care, religion, aid to the poor, research, and arts and culture. We first consider the role and behavior of these organizations (If not for profit, for what?), then consider several recent public policy controversies. These include purported fundraising abuses, the funneling of 'profits' towards personal gain, 'collusion' by universities in the granting of financial aid, commercial activities that may unfairly compete with for-profits, the conversion of multi-billion dollar nonprofit health and health insurance organizations into for-profit entities, and the tax treatment of personal donations. This year, Congress will consider extending estate taxation (with effects on charitable bequests), nonprofit bridge loans, the IRA charitable rollover, and the Corporation for National and Community Service will consider how to implement the new Social Innovation fund. A good site for updates on public policy, from the nonprofit community perspective, is at http://www.independentsector.org/index.htm

Accomodating Diverse Backgrounds

Econ 514 is designed to be taken by MA-Philanthropic Studies students, MPA-Public Affairs (with concentration in Nonprofit Management) students, and MA-Economics students. Some doctoral students in Philanthropic Studies may also take this class as an elective or to make up for deficiencies in the coverage of their MA degree program. Those taking 514 for credit towards the MA in Economics will have a distinct but overlapping set of required readings, and supplementary meetings will be arranged as necessary to cover the technical aspects in the distinct articles.

Class Objectives

The goals of this course are:
   a) To provide a deeper understanding of the regulatory and tax environment faced by nonprofit organizations.
   b) To develop your analytic skills by sketching the logic behind recent research and work-in-progress on the role, functioning, and regulation of the third sector.
   c) To foster your creative application of these analytic skills so that you can effectively address governmental-policy controversies that may emerge in the future, either as a nonprofit manager, spokesperson, lobbyist, voting citizen, or academic researcher.
   d) To illustrate the ubiquity of basic economic tools and the ways in which economic logic needs to be modified in a particular applied policy setting.

Prerequisites
Econ 201 or equivalent (Principles of Microeconomics) is a prerequisite for this class. The relevant elements of that course presumed here (although brief reviews will be incorporated in lectures) are supply and demand, monopoly, marginal costs, and market failure (where a more extensive review will be given). If you are lacking in this background, need a refresher, or are just plain curious, you should read selected chapters from Economics for Nonprofit Managers by Dennis Young and Rich Steinberg (ranked #616,068 on amazon.com!). You should particularly read the first chapter.

PHST P521 (or equivalently SPEA V521) is an informal prerequisite for this class. But only small parts of that course are crucial. Here are some readings that will bring you up to speed if you have not taken the course:

Required for newbies:


Optional for newbies:

Anheier and Salamon, "The Nonprofit Sector in Comparative Perspective." Handbook2

Giving USA, (annual).

Course Requirements

There is no textbook for this course. Required readings will be posted on oncourse for download. Several readings are chapters in Handbook2, and the rest of the chapters may be of interest so it wouldn’t hurt you to buy this book, but there is no requirement to do so. There will be two exams (counting 25% each), occasional assignments (totalling 20%), and a term project (counting 30%). A one-page description of your intended project must be submitted for approval (and to enable me to make timely suggestions) no later than about Feb. 27, 2008. Economics graduate students taking this course will have different assignments than other graduate students. Specifically, Economics students will need to make a presentation (preferably oral) on one of the more technical readings, with details to be given later, in lieu of one of the homeworks that provides practice on economics issues you are already good at.

Statement on Plagiarism, Cheating, and Related Opportunistic Behaviors.

Don’t do it. I check. I prosecute. Penalties are the maximum allowed. If you are unsure how to cite the work of others in your term projects, learn how or ask. I don’t care too much about formatting issues (for example, it is ok to omit page numbers) as long as you clearly
distinguish your own work and ideas from the work and ideas of others and give credit where credit is due.

Course Outline:

The first half of the course, on theories of the role and behavior of nonprofit organizations, has a set list of topics. The second half of the course, applying these tools to public policy controversies has a longer list of topics than we will have time for. I have selected a manageable set of topics, but we can substitute topics from the bibliography below if you would prefer. The required reading list below assumes we cover the topics I have selected.

This list of readings serves as a general bibliography. Only those readings marked by a * are required. $ indicates a technical reading for those with sufficient economics and/or statistics backgrounds. These readings are not required, but I'd love to discuss them individually with you if you have sufficient background and desire.

I) What Role for Nonprofits?: Economic and Political-Economic Theories.

A) Required


B) More on Public Goods Theories


**C) Testing Public Goods Theories**

$James, Estelle. Why Do Different Countries Choose a Different Public-Private Mix of Educational Services?, *Journal of Human Resources* 28#3, 1993, pp. 571-592.


**D) More on Asymmetric Information Theories**


$David Easley and Maureen O'Hara, "Optimal Nonprofit Firms," in *ENPI*.


**E) Issues in Comparing Behaviors Across Sectors**

*Mark Schlesinger and Brad Gray. "Nonprofit Organizations and Health Care: Some Paradoxes of Persistent Scrutiny." In *Handbook2*


Mark Schlesinger, Mismeasuring the Consequences of Ownership: External Influences and the Comparative Performance of Public, For-Profit, and Private Nonprofit Organizations, in *Powell and Clemens*.


**F) Testing Asymmetric Information Theories**

*Elizabeth Mauser, "The Importance of Organizational Form: Parent Perceptions vs. Reality in the Day Care Industry", in Powell and Clemens, 1998. Selected tables only.

Burton Weisbrod and Mark Schlesinger, "Ownership and Regulation in Markets with Asymmetric Information: Theory and Empirical Application to the Nursing Home Industry," in *ENPI*.


G) Testing Subsidy Theories


H) More on Entrepreneurial Sorting and Preferences

Dennis Young, "Entrepreneurship and the Behavior of Nonprofit Organizations: Elements of a Theory," in ENPI (and other places).

Dennis Young, If Not For Profit, For What?, 1983


Debra Minkoff and Walter W. Powell, Nonprofit Mission: Constancy, Responsiveness, or Deflection, Handbook 2

Howard Tuckman and Cyril Chang, Commercial Activity, Technological Change and Nonprofit Mission, Handbook2


I) Empirical Work on Objectives


J) Miscellaneous


Eleanor Brown and Al Slivinski, Nonprofits and the Market, Handbook2


II) What Role for Nonprofits?: Other Considerations


James Douglas, "Political Theories of Nonprofit Organizations" in *Handbook 1*.


$Avner Ben-Ner, "Birth, Change and Bureaucratization in Nonprofit Organizations: An Economic Analysis" (draft, 1987)


III) Contracting Out, Public-Private Partnerships: Government/Nonprofit Relations

A) Contracting


Kendall, Knapp, and Forder. "Social Care and the Nonprofit Sector in the Western Developed World." *In Handbook2*


Carolyn Hill, Contracting with Nonprofits and For-Profits for Human Services, working paper, Harris School of Public Policy Studies, 2000.


B) Partnerships


V) Giving

A) Theory


Lise Vesterlund, "Why Do People Give" Handbook2

B) Subsidizing Donations


Gerald Auten, Charles Clotfelter, and Richard Schmalbeck, "Taxes and Philanthropy Among the Wealthy".

**C) Crowding Out**


$Lewis M. Segal and Burton A. Weisbrod, "Interdependence of Commercial and Donative Revenues," in *To Profit*....


**D) Fundraising**


E) Volunteering


F) Corporate Donations

VI) Taxation of Nonprofit Organizations and their Commercial Activities

A) Commercial Activity

Burton Weisbrod, "Ch. 6: Revenues from Sales," NTE


Estelle James, "How Nonprofits Grow," in ENPI.

B) Entity Taxation


Joseph Cordes and Burton Weisbrod, "Differential taxation of nonprofits and the commercialization of nonprofit revenues," in To Profit....


**VII) Regulating Inputs**

**A) Labor**

*Laura Leete, Work in the Nonprofit Sector* In *Handbook*.


**B) Capital**

*Henry Hansmann, "Why Do Universities Have Endowments?," *Journal of Legal Studies* 29, January 1990. (skip appendix)


Bilodeau and Steinberg, "Donative Nonprofit Organizations", subsection on "capital".


**VIII) Regulating Competition**


Eleanor Brown and Al Slivinski, Nonprofits and the Market, *Handbook2*


Howard Tuckman, "Competition, Commercialization, and the evolution of Nonprofit Organizational Structures," in *To Profit...*

Estelle James, "Commercialism among Nonprofits: Objectives, Opportunities, and Constraints." in *To Profit...*


**IX) Regulation of Fundraising**


$Richard Steinberg, "Should Donors Care about Fundraising?" in *ENPI*.

$Susan Rose-Ackerman, "Charitable Giving and "Excessive" Fundraising," in *ENPI* (and other places).


Gordon Tullock, "Information without Profit," Chapter 4 in *The Economics of Wealth and Poverty*, 1986 (and other places).


**X) Cross-Sectoral Conversions**

John Goddeeris and Burton Weisbrod, "Conversion from nonprofit to For-Profit Legal Status: Why Does it Happen and Should Anyone Care?" in *To Profit*...
