

# History and theory of the nonprofit sector

**September 1, 2022**

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

# Plan for today

**Why do nonprofits even exist? (Theory part)**

**Why do nonprofits even exist? (History part)**

**How to make teamwork not suck**

**Forming and norming**

**Issue and cause selection**

# 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

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	<b>Excludable</b>	<b>Not excludable</b>
<b>Rival</b>		
<b>Not rival</b>		

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# Types of goods

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	<b>Excludable</b>	<b>Not excludable</b>
<b>Rival</b>	Private goods	

**Not rival**

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# Types of goods

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	<b>Excludable</b>	<b>Not excludable</b>
<b>Rival</b>	Private goods	
<b>Not rival</b>	Club goods	

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# Types of goods

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	<b>Excludable</b>	<b>Not excludable</b>
<b>Rival</b>	Private goods	Common pool resources
<b>Not rival</b>	Club goods	

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# Types of goods

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	<b>Excludable</b>	<b>Not excludable</b>
<b>Rival</b>	Private goods	Common pool resources
<b>Not rival</b>	Club goods	Public goods

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# 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

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

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# New Republic (1787+)

Two big changes

Separation of church and state

First amendment right of association

Dartmouth v. Woodward (1819)



# New Republic (1787+)

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

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# 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**

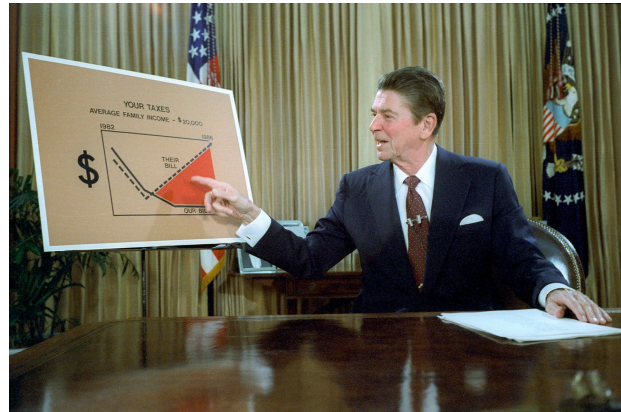
# 1960–2000

War on  
Poverty



Increased  
federal funding

Neoliberal  
privatization



Explosive growth &  
professionalization

Rise in  
secularization



Increase in non-  
religious nonprofits

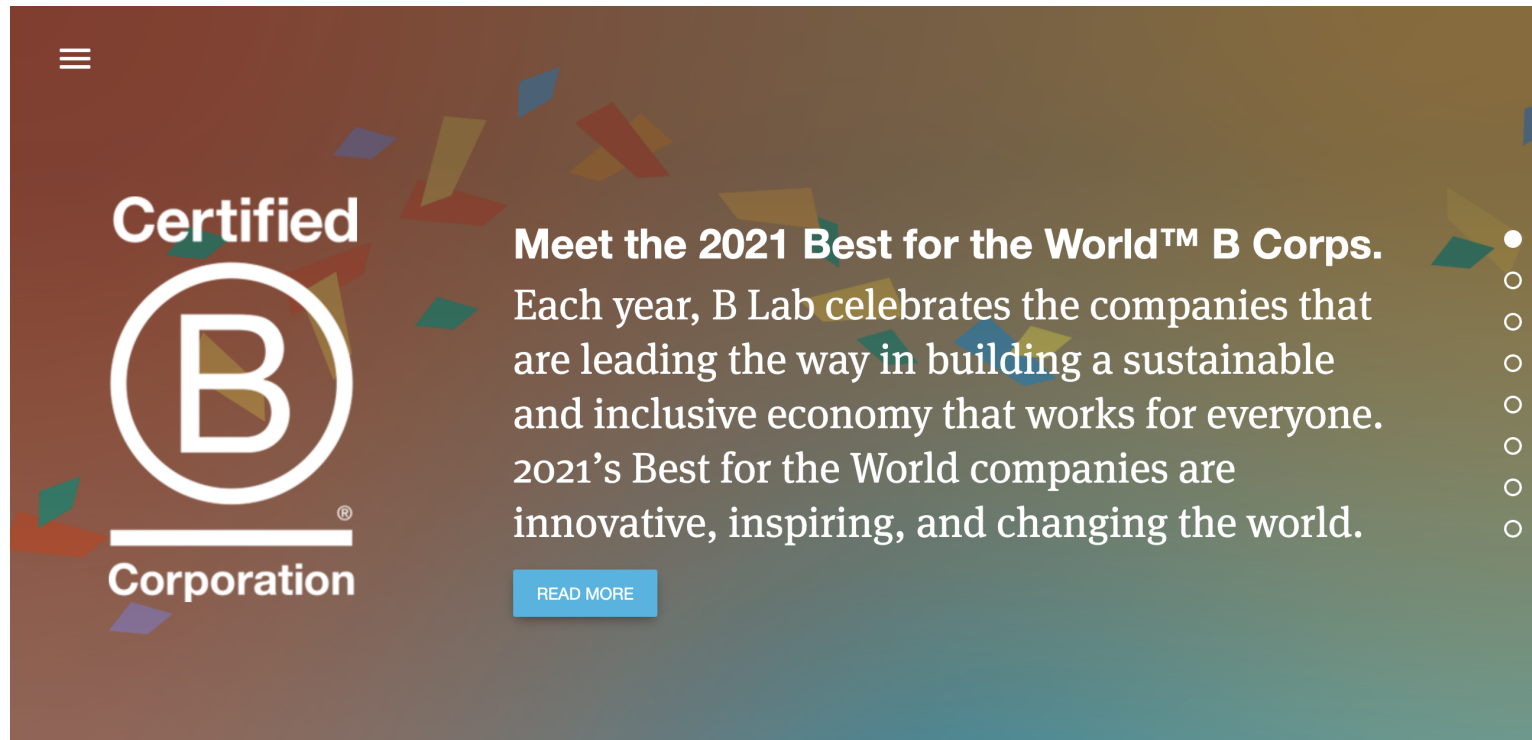
# 1960–2000

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



# 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 logo consisting of the word "Certified" above a large white letter "B" inside a white circle, with "Corporation" below it. To the right of the logo, there is a paragraph of text: "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 the text is a blue button with the text "READ MORE". On the far right, there is a vertical list of seven circles, with the top one filled and the others empty. The background is decorated with colorful, abstract geometric shapes in shades of blue, red, and green.

☰

**Certified**

**B**

**Corporation**

**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.

[READ MORE](#)

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# 2000–today

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

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# 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?

**How to make  
teamwork not suck**

# Teams are everywhere!

There's a whole world of scholars who study what makes teams effective

(Organizational behavior)

Teams generally increase productivity, quality, and morale

They're a good thing!

# Few do them right

Often, managers (and professors) see the success of teams and make their employees (or students) adopt them *without any preparation*

**This is bad!**

Trying to work in a team without any preparation leads to failure and inefficiencies

**Teams can create public good deficiencies!**

**We're going to  
do teams right**

# Stages of the team lifecycle

**Forming**

**Norming**

**Storming**

**Performing**



# Forming

Members aren't a team;  
just individuals

Lots of uncertainty  
about everything

Silence, self-consciousness,  
dependence, and superficiality  
reign supreme

Figure out the details  
of the task or project

Get questions answered

Establish trust and  
build relationships

Establish clarity of purpose,  
procedures, and expectations

# Norming

**Start building a team culture**

**Codify norms and expectations in a written charter**

**Start conforming to standards and expectations**

**Maintain unity and cohesion**

**Facilitate participation and empowerment**

**Show support to team members**

# Storming

Harmony and success  
can lead to dissension

"All sunshine makes a desert"

Coalitions and cliques

**Free-riding**

Hold members to  
expectations in the charter

Manage conflict

Legitimize productive  
expressions of individuality

Turn counterdependence  
into interdependence

# Performing

After forming, norming, and occasional storming, the team can work at a high level of performance!

**Members show shared responsibility  
and concern for one another**

# Today's plan

## Forming

Create a team name

Get to know each other

Get questions answered

## Norming

Establish roles  
and expectations

Write a charter

# Today's goals

**Create a name**

**Create a charter**

**Settle on a community and issue and preliminary nonprofit for final project**

# Forming and norming

# Issue and cause selection