Econ 514 - The Nonprofit Economy and Public Policy

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. Tax and budgetary issues likely to come up this election year include the tax treatment of donations by living donors, extension of estate taxation, nibbling at tax exemption (particularly at the state and local level), and cutbacks in social service grants and contracts with nonprofit organizations. Possibly attention will be devoted to advocacy activities of nonprofits, a payout requirement for donor-advised funds, creation of new categories of hybrid nonprofit/for-profit organizations. 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 #735,830 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, 2012. 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.

Plagiarism is the violation of academic expectations about using and citing sources. The Indiana University Code of Student Rights and Responsibilities (available in CA 401) explains institutional penalties for plagiarism, or you may visit http://www.iupui.edu/code/ for more information. 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.

Miscellaneous Other Policies

- Adaptive Educational Services (AES) provides accommodations for students with special challenges or disabilities that may affect their classroom performance. If you are eligible you may register with AES by calling 274-3241. Visit http://www.life.iupui.edu/aes/ for more information.
- CAPS: If you find that life stressors are interfering with your academic or personal success, consider contacting Counseling and Psychological Services (CAPS). All IUPUI students are eligible for counseling services at minimal fees. CAPS also performs evaluations for learning disorders and ADHD; fees are charged for testing. CAPS is located in UN418. For more information, see the CAPS web-site at: http://www.life.iupui.edu/caps/ or call them at 274-2548.
- University Writing Center: The UWC provides free assistance to students at any stage of the writing process. Please visit them for friendly advice about your writing assignments. Call 274-2049 or stop by CA 427 to make an appointment. Visit them online at http://www.iupui.edu/~writectr/

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.

My past adherence to schedules has been haphazard at best. In order to provide more self-discipline, I will shortly post a schedule for the first half topics and try to stick to it, unless current events or class-member interests require us to mess with it.

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


**B) More on Public Goods Theories**


**C) Testing Public Goods Theories**

$J$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**


Burton Weisbrod, Chapter 2 "Options Among Institutional Forms" in *The Nonprofit Economy*, 1988, (hereafter NPE)


$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*.


$Tami L. Mark, Psychiatric Hospital Ownership and Performance: Do Nonprofit Organizations Offer Advantages in Markets Characterized by Asymmetric Information, *Journal of Human Resources*, vol. 31, 1996 or so.


**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, Handbook 2


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*

Elisabeth Clemens, *The Constitution of Citizens: Political Theories of Nonprofit Organizations*, *Handbook 2*


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


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


Kirsten Gronbjerg, Understanding Nonprofit Funding, 1993.


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....*


*Catherine Eckel and Richard Steinberg, "Tax Policy and the Objectives of Nonprofit Organizations in a Mixed Sector Duopoly," (draft, 1994).*


VII) Regulating Inputs

A) Labor

*Laura Leete, Work in the Nonprofit Sector" In *Handbook2.*


B) Capital


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...*


XI) Hybrid Organizations


