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The Stakes: The Nonprofit Sector and Why We Need It

If the nonprofit sector is one of the most important components of American life, it is also one of the least understood. Few people are even aware of this sector's existence, though most have some direct contact with it at some point in their lives. Included within this sector is a vast assortment of organizations: the nation's religious congregations, its labor unions and professional associations, its social clubs, most of its premier hospitals and universities, almost all of its orchestras and opera companies, a significant share of its theaters, the bulk of its environmental advocacy and civil rights organizations, and huge numbers of its family service, children's service, neighborhood development, antipoverty, and community health facilities. Also included are the numerous support organizations, such as foundations and community chests, that help to generate financial assistance for these organizations, as well as the traditions of giving, volunteering, and service they help to foster.

More formally, the nonprofit sector consists of private organizations that are prohibited from distributing any profits they may generate to

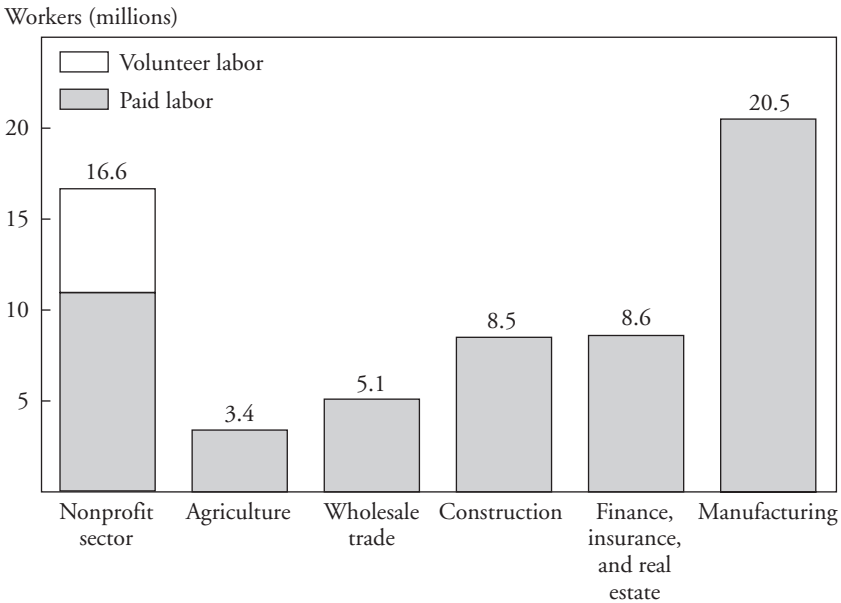
those who control or support them. These organizations are generally exempted from federal, and often from state and local, taxation on grounds that they serve some public purpose. Hence they are often referred to as “tax-exempt” organizations. But the range of purposes for which such tax exemption is granted is quite broad. Federal tax law, for example, identifies no fewer than twenty-six classes of such organizations, ranging from political parties to cemetery companies.¹

For our purposes here, I focus on the largest, and most visible, subset of these organizations: those that are eligible for exemption from federal income taxation under section 501(c)(3) of the tax code, plus the closely related “social welfare organizations” eligible for exemption under section 501(c)(4) of this code. Included here are organizations that operate “exclusively for religious, charitable, scientific, or educational purposes” and that do not distribute any profits they may generate to any private shareholder or individual. Alone among tax-exempt organizations, the 501(c)(3) organizations are also eligible to receive tax deductible contributions from individuals and businesses, a reflection of the fact that they are expected to serve broad public purposes, as opposed to the interests and needs of the members of the organizations alone.²

Scale

No one knows for sure how many such nonprofit organizations exist in the United States, since large portions of the sector are essentially unincorporated and the data available on even the formal organizations are notoriously incomplete. A conservative estimate would put the number of formally constituted 501(c)(3) and 501(c)(4) organizations at 1.2 million as of the mid-1990s, including an estimated 350,000 churches and other religious congregations.³ As of 1998, these organizations employed close to 11 million paid workers, or over 7 percent of the U.S. work force, and enlisted the equivalent of another 5.7 million full-time employees as volunteers.⁴ This means

Figure 2-1. *Nonprofit Employment in Relation to Employment in Major U.S. Industries, 1998*

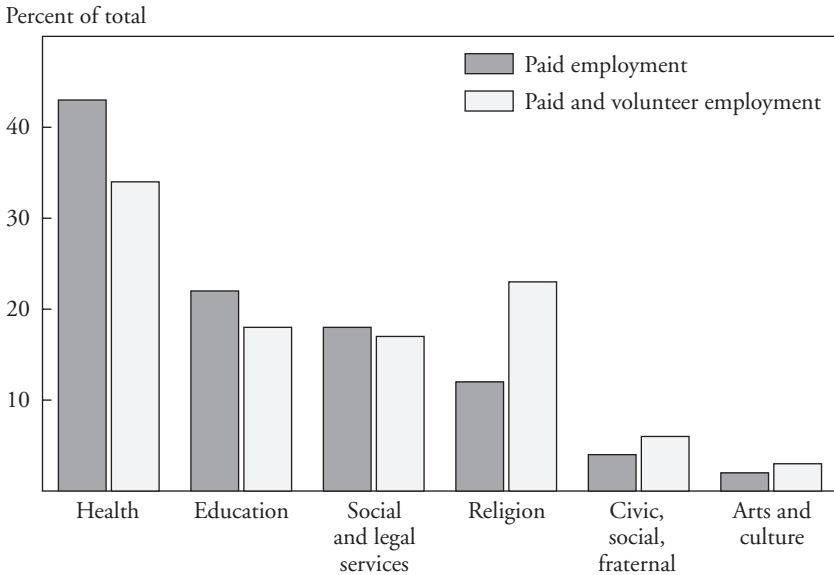


Source: Murray S. Weitzman and others, *The New Nonprofit Almanac and Desk Reference* (San Francisco: Jossey-Bass, 2002), pp. 33, 23, 80; U.S. Census Bureau, *Statistical Abstract of the United States*, 120th ed. (Government Printing Office, 2000), p. 420.

that the paid employment alone in nonprofit organizations is three times that in agriculture, twice that in wholesale trade, and nearly 50 percent greater than that in construction and in finance, insurance, and real estate, as shown in figure 2-1. With volunteer labor included, employment in the nonprofit sector, at 16.6 million, approaches that in all branches of manufacturing combined (20.5 million).⁵

Most of this nonprofit employment is concentrated in three fields—health (43 percent), education (22 percent), and social services such as day care, foster care, and family counseling (18 percent). With volunteers included, the distribution of employment changes significantly, with the religious share swelling to 23 percent and health dropping to 34 percent (figure 2-2)

Figure 2-2. *Distribution of Nonprofit Employment, Paid and Volunteer, by Field, 1998^a*



Source: Author's estimates based on data in Weitzman and others, *The Nonprofit Almanac and Desk Reference*; Virginia B. Hodgkinson and Murray S. Weitzman, *Nonprofit Almanac: 1996/97* (San Francisco: Jossey-Bass, 1996).

a. Paid employment, n = 10.9 million. Paid and volunteer employment, n = 16.6 million.

These large categories disguise, however, the huge array of separate services and activities in which nonprofit organizations are involved. A classification system developed by the National Center for Charitable Statistics, for example, identifies no fewer than twenty-six major fields of nonprofit activity, and sixteen functions—from accreditation to fund-raising—in each. Each of the major fields is then further subdivided into separate subfields. Thus, for example, the field of arts, culture, and humanities has fifty-six subfields; and the field of education has forty-one. Altogether, this translates into several thousand potential types of nonprofit organizations.⁶

Even this fails to do justice to the considerable diversity of the nonprofit sector. Most of the employment and economic resources of

this sector are concentrated in a relatively limited number of large organizations. However, most of the organizations are quite small, with few or no full-time employees. Of the nearly 670,000 organizations recorded on the Internal Revenue Service's list of formally registered 501(c)(3) organizations (exclusive of religious congregations and foundations) as of 1998, for example, only about a third, or 224,000, filed the information form (Form 990) required of all organizations with expenditures of \$25,000 or more. The remaining two-thirds of the organizations are thus either inactive or below the \$25,000 spending threshold for filing.⁷ Even among the filers, moreover, the top 4 percent accounted for nearly 70 percent of the reported expenditures, while the bottom 40 percent accounted for less than 1 percent of the total.⁸

Roles and Functions

Quite apart from their economic importance, nonprofit organizations make crucial contributions to national and community life.⁹

The Service Role

In the first place, nonprofit organizations are *service providers*: they deliver much of the hospital care, higher education, social services, cultural entertainment, employment and training, low-income housing, community development, and emergency aid services available in the United States. More concretely, this set of organizations constitutes:

- half of the nation's hospitals;
- one-third of its health clinics;
- over a quarter of its nursing homes;
- nearly half (46 percent) of its higher education institutions;
- four-fifths (80 percent) of its individual and family service agencies;
- 70 percent of its vocational rehabilitation facilities;
- 30 percent of its day care centers;

- over 90 percent of its orchestras and operas; and
- the delivery vehicles for 70 percent of its foreign disaster assistance.

While disagreements exist over how “distinctive” nonprofit services are compared to those provided by businesses or governments, nonprofits are well known for identifying and responding to unmet needs, for innovating, and for delivering services of exceptional quality. Nonprofit organizations thus pioneered assistance to AIDS victims, hospice care, emergency shelter for the homeless, food pantries for the hungry, drug abuse treatment efforts, and dozens more, too numerous to mention. Similarly, many of the nation’s premier cultural and educational institutions are private, nonprofit organizations—institutions like Harvard, Princeton, Yale, Stanford, the University of Chicago, Johns Hopkins University, the Metropolitan Museum of Art, and the Cleveland Symphony, to name just a few. While public and for-profit organizations also provide crucial services, there is no denying the extra dimension added by the country’s thousands of private, nonprofit groups in meeting public needs that neither the market nor the state can, or will, adequately address.

The Advocacy Role

In addition to delivering services, nonprofit organizations also contribute to national life by identifying unaddressed problems and bringing them to public attention, by protecting basic human rights, and by giving voice to a wide assortment of social, political, environmental, ethnic, and community interests and concerns. Most of the social movements that have animated American life over the past century or more operated in and through the nonprofit sector. Included here are the antislavery, women’s suffrage, populist, progressive, civil rights, environmental, antiwar, women’s, gay rights, and conservative movements. The nonprofit sector has thus helped make the constitutional protections of free speech operational by permitting individuals to join their voices with others to effect social and political change. As such, it has operated as a critical social safety valve, permitting

aggrieved groups to bring their concerns to broader public attention and to rally support to improve their circumstances. This advocacy role may, in fact, be more important to the nation's social health than are the service functions this sector also performs.

The Expressive Role

Political and policy concerns are not the only ones to which the non-profit sector gives expression. Rather, this set of institutions provides the vehicles through which an enormous variety of other sentiments and impulses—artistic, religious, cultural, ethnic, social, recreational—also find expression. Opera companies, symphonies, soccer clubs, churches, synagogues, fraternal societies, book clubs, and girl scouts are just some of the manifestations of this expressive function. Through them, nonprofit organizations enrich human existence and contribute to the social and cultural vitality of national and community life.

The Community-Building Role

Nonprofit organizations are also important in building what scholars are increasingly coming to call “social capital,” those bonds of trust and reciprocity that seem to be crucial for a democratic polity and a market economy to function effectively.¹⁰ Alexis de Tocqueville understood this point well when he wrote in *Democracy in America* that:

Feelings and opinions are recruited, the heart is enlarged, and the human mind is developed, only by the reciprocal influence of men upon one another . . . these influences are almost null in democratic countries; they must therefore be artificially created and this can only be accomplished by associations.¹¹

By establishing connections among individuals, involvement in associations teaches norms of cooperation that carry over into political and economic life, enlarging the nation's pool of social capital.

The Value Guardian Role

Finally, nonprofit organizations embody, and therefore help to nurture and sustain, a crucial national value emphasizing individual initiative in the public good.¹² They thus give institutional expression to two seemingly contradictory principles that are both important parts of American national character—the principle of *individualism*, the notion that people should have the freedom to act on matters that concern them; and the principle of *solidarity*, the notion the people have responsibilities not only to themselves, but to their fellow human beings and to the communities of which they are part. By fusing these two principles, nonprofit organizations reinforce both, establishing an arena of action through which individuals can take the initiative not simply to promote their own well-being but also to advance the well-being of others. This is not simply an abstract function, moreover. It takes tangible form in the more than \$200 billion in private charitable gifts that nonprofit organizations help to generate from the American public annually and in the 15.8 billion hours of volunteer time they stimulate for a diverse array of purposes.

In short, nonprofit America is not only a sizable part of the American economy. It remains, as well, a crucial contributor to the quality of American life.