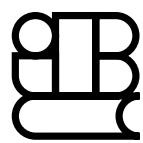


Nonprofit Nation

A New Look at
the Third America

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Nonprofit Nation

Michael O'Neill

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Contents

Tables	xi
Preface	xvii
The Author	xxiii
1. Nonprofit Nation	1
2. Theories	35
3. Religion	53
4. Social Service	73
5. Health Care	91
6. Education and Research	107
7. Advocacy	135
8. Arts and Culture	151
9. International	169
10. Funders	181
11. Mutual Benefit	209
12. Prospects	229
Appendix	261
References	271
Index	293

Tables

Chapter One

Table 1.1.	Organizations Exempt from Federal Income Tax, 2000	4
Table 1.2.	Dimensions of the U.S. Nonprofit Sector, Late 1990s	11
Table 1.3.	Number of Applications for Nonprofit Status Approved by the IRS, 1956–2000	17
Table 1.4.	Major Revenue Sources for the Nonprofit Sector by Subsector	20
Table 1.5.	Major Revenue Sources for Charitable Organizations, 1997	21
Table 1.6.	Expenses of 501(c)(3) and 501(c)(4) Organizations, 1997	21
Table 1.7.	Payroll as a Percentage of Total Operating Expenses in Selected Nonprofits, 1997	22
Table 1.8.	Charitable Giving in the United States by Source, 2000	24
Table 1.9.	Charitable Giving in Current Dollars, as a Percentage of U.S. Gross Domestic Product, and by Source; and Giving by Living Individuals in Current Dollars and as a Percentage of U.S. Personal Income, 1970–2000	25
Table 1.10.	Charitable Giving in the United States by Recipient Subsector, 2000	27

Table 1.11.	Distribution of Charitable Giving in the United States by Recipient Subsector, 1970–2000	28
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Chapter Three

Table 3.1.	Number of Churches and Church Members by Denomination, Circa 1999	56
Table 3.2.	U.S. Congregational Expenditures by Category, 1991	60

Chapter Four

Table 4.1.	Nonprofit Social Assistance Organizations: Number, Revenue, Expenses, and Employment, 1997	75
Table 4.2.	Nonprofit Human Service Organizations: Number, Revenue, Expenses, and Assets, Circa 1997	76
Table 4.3.	Revenue Sources for Nonprofit Social Assistance Organizations, 1997	78
Table 4.4.	For-Profit and Nonprofit Social Assistance Organizations: Number, Revenue, and Employment, 1997	79

Chapter Five

Table 5.1.	Nonprofit, Government, and For-Profit Hospitals: Number, Revenue, Expenses, and Employment, 1997	93
Table 5.2.	Nonprofit and For-Profit Ambulatory Health Care Services and Nursing and Residential Care Services: Number, Revenue, Expenses, and Employment, 1997	95
Table 5.3.	Nonprofit Health Organizations: Number, Revenue, Expenses, and Assets, Circa 1997	96
Table 5.4.	Revenue Sources for Nonprofit General Hospitals, 1997	97
Table 5.5.	Revenue Sources for the U.S. Health Economy, 2000	98
Table 5.6.	Nonprofit, Government, and For-Profit Community Hospitals and Beds, 1975 and 1997	102

Chapter Six

Table 6.1.	Distribution of Private Schools and Students by Religious Orientation of School, 1999–2000	109
Table 6.2.	Distribution of Private School Students by Race and Ethnicity, 1999–2000	112
Table 6.3.	Distribution of Private and Public School Teachers by Selected Characteristics, 1993–1994	114
Table 6.4.	Nonprofit Postsecondary Educational Organizations: Number and Enrollment, 1998–1999	115
Table 6.5.	Distribution of Students in Public and Private Four-Year Institutions of Higher Education by Race and Ethnicity, Fall 1997	116
Table 6.6.	Revenue Sources for Private Nonprofit Colleges and Universities, 1996–1997	117
Table 6.7.	Percentage of Non-Hispanic White Staff in Public and Private Four-Year Degree-Granting Institutions by Staff Category, Fall 1997	118
Table 6.8.	Other For-Profit and Nonprofit Educational Organizations: Number, Revenue, and Employment, 1997	120
Table 6.9.	Nonprofit Scientific Research and Development Organizations: Number, Revenue, Expenses, and Employment, 1997	121
Table 6.10.	Private K–8 School Enrollment as a Percentage of Total K–8 School Enrollment and of the Population Aged Five to Thirteen, 1949–2000	124
Table 6.11.	Private 9–12 School Enrollment as a Percentage of Total 9–12 School Enrollment and of the Population Aged Fourteen to Seventeen, 1949–1999	124
Table 6.12.	Private Higher Education Enrollment as a Percentage of Total Higher Education Enrollment, 1949–2000	126

Chapter Seven

Table 7.1.	Nonprofit Social Advocacy Organizations: Number, Revenue, Expenses, and Employment, 1997	136
Table 7.2.	Nonprofit Social Advocacy Organization Size by Employment and Revenue, 1997	137
Table 7.3.	Nonprofit Advocacy Organizations: Number, Revenue, and Assets, 1997	137
Table 7.4.	Revenue Sources for Various Types of Nonprofit Social Advocacy Organizations, 1997	139

Chapter Eight

Table 8.1.	Nonprofit Arts Organizations: Number, Revenue, Expenses, and Employment, 1997	153
Table 8.2.	Nonprofit Arts Organization Size by Employment and Revenue, 1997	154
Table 8.3.	Revenue Sources for Various Types of Nonprofit Arts Organizations, 1997	156
Table 8.4.	Sources of Government and Private Gifts and Grants for Selected Nonprofit Arts Organizations, 1997	157
Table 8.5.	Public Participation in the Arts in the United States, 1997	159

Chapter Nine

Table 9.1.	Nonprofit International Organizations: Number and Expenses, Circa 1992	170
Table 9.2.	Revenue Sources for Nonprofit International Organizations, 1998	171

Chapter Ten

Table 10.1.	Grantmaking Foundations: Number, Assets, and Grants, 1999	183
Table 10.2.	Distribution of Foundation Grant Dollars by Subject Category, Circa 1999	187
Table 10.3.	Distribution of U.S. Corporate Contributions by Beneficiary, 1999	188

Table 10.4. Staffed Nonprofit Grantmakers: Number and Employment, 1997	190
Table 10.5. Growth in the Number of Larger Foundations, 1920–1998	194

Chapter Eleven

Table 11.1. 501(c)(5)–(9) Organizations: Number, Revenue, Expenses, and Assets, 1997	212
Table 11.2. Revenue Sources for 501(c)(5)–(9) Organizations, 1997	213
Table 11.3. Selected Mutual Benefit Organizations: Number, Revenue, and Employment, 1997	214
Table 11.4. Employment in Selected Nonprofit Mutual Benefit Organizations, 1998	216
Table 11.5. Percentage of U.S. Men Enrolled in the Largest Fraternal Societies, 1955–1995	219

For Elfrieda

Preface

Nonprofit Nation presents an overview of the nonprofit sector in the United States. The sector has grown dramatically in the last half century and now comprises 1.8 million registered organizations and several million other associations, including support groups, book clubs, and neighborhood action committees. Nonprofit organizations have annual revenue of \$1 trillion and assets of \$2 trillion, and account for 5 to 10 percent of the nation's gross domestic product (GDP). Only six foreign nations have a GDP larger than the U.S. nonprofit economy. American nonprofits employ 12 million people, more than the civilian workforce of the federal government and the fifty state governments combined. More than 100 million adults do volunteer work for nonprofits. In 2000, American households, foundations, and corporations gave \$203 billion to charity.

Nonprofits have enormous presence in American society through churches, hospitals, soccer camps and Little League baseball, schools and universities, think tanks and research institutes, theaters and symphony orchestras, civil rights and environmental groups, and many other organizations. The nonprofit sector touches every household in some way. This book describes the recent growth and current extent of the sector, its impact on society, key challenges facing nonprofits, and possible future directions.

Audience

Nonprofit Nation is written for anyone interested in a general, non-technical overview of the American nonprofit sector. Potential readers include students in undergraduate and graduate courses on nonprofits and philanthropy, board and staff members of nonprofit agencies, media representatives, government policymakers and their staffs, grantmakers, academics, and non-Americans interested in the U.S. nonprofit sector. My earlier book on this topic, *The Third America: The Emergence of the Nonprofit Sector in the United States* (O'Neill, 1989), proved useful to a wide variety of audiences; it is my hope that this book will have similarly broad appeal. Both books follow a similar outline; however, *Nonprofit Nation* includes more extensive and up-to-date statistics on the sector and its major divisions, a full chapter on theories of the sector, and more detailed projections about the future of the sector. The historical components of *Nonprofit Nation* have been confined to the period 1950–2000, whereas those sections in *The Third America* covered the entire scope of American history. Both books contain selected issues, challenges, and policy questions relevant to the U.S. nonprofit sector.

Organization of This Book

Chapter One describes the size, shape, and significance of the U.S. nonprofit sector as a whole. It also deals with several related phenomena, especially the charitable donations and volunteer work that provide a large part of the resources of the sector.

Chapter Two summarizes the principal theories of nonprofit existence and activity. Scholars from a variety of disciplines—anthropology, history, sociology, political science, economics—have attempted to explain why nonprofit agencies exist, why they do what they do, and what relationship they have to the business, government, and household sectors. We are still far from a “grand uni-

fied theory” of the nonprofit sector, but this chapter suggests some elements of such a theory.

Each of the next nine chapters describes one of the major subsectors of the American nonprofit world. There has been much scholarly discussion and debate about the partitioning of the nonprofit sector. My ninefold structure, which I also used in *The Third America* (O’Neill, 1989), is largely consistent with the main government and private classification systems. For example, all schemata of the sector include religion, education, health care, social or human services, grantmaking, and arts and culture as major divisions. However, I give more attention than some do to advocacy, international assistance, and mutual benefit activity.

Each of the subsector chapters is in turn divided into two parts: “Scope and Impact” and “Trends and Issues.” The former discusses the societal impact of the subsector and details its size and shape, including number and types of organizations; revenue, expenditures, and assets; number and characteristics of paid staff and volunteers; number of clients or customers; and other such information. The latter describes key trends in the subsector from 1950 to 2000 and highlights some issues and challenges facing the subsector. Readers interested in more historical background may consult my historical sketches in the subsector chapters of *The Third America* (O’Neill, 1989) and find more extensive and systematic treatments in the works of nonprofit sector historians Bremner (1988), Hall (1987, 1992), Hammack (1998, 2001), and others mentioned in the “History” section in Chapter Two.

Chapter Three discusses religious organizations. Religion is by several measures the largest part of the American nonprofit sector, and its activities have had a major role in shaping other parts of the sector, especially education, health care, and social services.

Chapter Four deals with social service, from soup kitchens to suicide prevention centers. Human service agencies may be the most familiar and universally appealing part of the nonprofit sector

and are broadly supported by government, foundations, corporations, individuals, and religious groups.

Chapter Five portrays health care, which accounts for half the revenue and employment of the entire nonprofit sector. Nonprofit hospitals, clinics, biomedical research institutes, and other agencies form a large and critically important part of the nation's health system.

Chapter Six concerns education and research. Private nonprofit schools, colleges, universities, and research institutes educate and enlighten millions of American citizens. The influence of these organizations lives on in their graduates and publications. For example, twelve of the eighteen U.S. presidents in the twentieth century attended a private college or university.

Chapter Seven investigates advocacy organizations. These groups are part of a long historical tradition in the United States, from the temperance and abolition societies of the early nineteenth century to the environmental and women's groups of the late twentieth century. By revenue and employment measures, advocacy is one of the smallest parts of the nonprofit sector, but its influence on public policy is far greater than these numbers would indicate.

Chapter Eight studies the world of arts and culture, where nonprofits provide a home for much of society's creative expression and cultural preservation. Like religion and advocacy, the arts world gets little government support and has many low-paid workers and volunteers but has great influence on the ideas, values, language, and symbols of society.

Chapter Nine focuses on American nonprofits that work in other countries, primarily in emergency relief and economic development but also for international understanding and peace, human rights, and other goals. The increasing globalization of the world's economy has created special needs and opportunities for U.S. nonprofits working abroad.

Chapter Ten examines institutional grantmakers: foundations, corporate philanthropy, and United Way and other federated fun-

ders. Although institutional funders supply a small portion of total nonprofit revenue, they play a vitally important role through their support of promising new ideas and time-tested programs.

Chapter Eleven explores the often ignored world of mutual benefit organizations. These “noncharitable” nonprofits focus primarily on the interests and needs of their members but also benefit society in many ways.

Chapter Twelve concludes the book with predictions of major trends in the American nonprofit sector during the first quarter of the twenty-first century.

Statistics Presented in This Book

If the history of the U.S. nonprofit sector in the last fifty years demonstrates anything, it is that virtually all measures will change, most of them upward, and that some measures will change significantly even in the space of a few years. However, there is a great deal more stability in the *percentages*—the *proportions*. For example, gifts and bequests from individuals accounted for 87 percent of American charitable giving in 1970 and 83 percent in 2000, whereas the *amount* of gifts and bequests rose ninefold in current dollars and doubled in inflation-adjusted dollars during that period (American Association of Fundraising Counsel, 2001, pp. 150–151). Similarly, total giving as a percentage of GDP and individual giving as a percentage of personal income have remained highly constant, at about 2 percent, during the last three decades (American Association of Fundraising Counsel, 2001, pp. 158–159). Both basic data and proportions are important to understanding the work of the nonprofit sector. In addition to presenting the basic data and proportions, I have also indicated where the reader can find more detailed and updated statistical information. Thanks to the miracle of the Internet, there are now many data sources literally at one’s fingertips; thus the reader will see “www” and “http” references as well as the traditional books, journals, and reports. Finally, I will occasionally

use round numbers in the text to refer to numbers in the tables that are not round (for example, “fifty thousand” for 49,827).

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He has been at the University of San Francisco since 1976, serving as a faculty member, program director, and dean. Before coming to the university, he was a superintendent of schools for nine years. He has also taught at Boston College, Fort Wright College, and the University of Notre Dame.

O'Neill is the author or coauthor of several books and more than fifty articles, book chapters, and reviews on nonprofit, education, and management topics. His books include *Educating Managers of Nonprofit Organizations* (1988, with Dennis R. Young), *The Third America: The Emergence of the Nonprofit Sector in the United States* (1989), *Ethics in Nonprofit Management: A Collection of Cases* (1990), *Hispanics and the Nonprofit Sector* (1991, with Herman E. Gallegos), *Women and Power in the Nonprofit Sector* (1994, with Teresa Odendahl), *Nonprofit Management Education: U.S. and World Perspectives* (1998, with Kathleen Fletcher), and *Giving and Volunteering in California* (2000, with William L. Roberts).

O'Neill is a former president of the Association for Research on Nonprofit Organizations and Voluntary Action and a former member of the editorial boards of *Nonprofit Management and Leadership* and the *Harvard Educational Review*. He is the founder and former director of the Institute for Nonprofit Organization Management at the University of San Francisco.

Nonprofit Nation

Nonprofit Nation

The United States is a nation of 281 million individuals. It is also a nation of 100 million groups—families, businesses, clubs, government agencies, charitable organizations, and others.¹ Individuals act through and are acted upon by groups; one is unimaginable without the other. Groups have immense influence on individuals and the society they constitute.

This book is about one type of American groups, nonprofit organizations. There are several million such entities—no one really knows how many—of which 1.8 million are formally recognized by some government agency. Nonprofits engage in an astonishing array of activities, from protecting the world's whales to promoting cowboy poetry. Nonprofit activity is everywhere. It is hard to find a neighborhood without visible nonprofit presence—church, private school, day-care center, dance class, soccer team, Girl Scout group, Goodwill Industries store—and impossible to find a neighborhood untouched by the nonprofit work that led to child labor laws, civil rights, public television and radio, cleaner air and water, property

¹In the late 1990s there were 72 million families (1999); 26 million business organizations, including 2 million farms and 24 million nonfarm proprietorships, partnerships, and corporations (1997); eighty-seven thousand local governmental units, in addition to the federal government and fifty state governments (1997); and 1.8 million nonprofit organizations (2000) (U.S. Census Bureau, 2000j, tables 60, 1097, 854, 490; Internal Revenue Service, 2001a, table 22; all sources on religious organizations listed in Table 3.1).

tax limits, and the eradication of polio. The nonprofit sector is a major presence in American life.

Definitions

Michelangelo was once asked how he could sculpt a horse from a block of marble; he answered that he simply chipped away everything that was not a horse. Similarly, “nonprofit organization” is often defined as any group that is not a family, not a business, and not part of government. It is generally agreed that there is no perfectly satisfactory name for this sector of society, and it is variously described as the “voluntary,” “charitable,” “independent,” “third,” or “nongovernmental” sector or as “civil society.” Like its most common name—“nonprofit sector”—this group of organizations seems fated to be defined by negation. The influential Filer Commission report of the mid-1970s stated, “The sector as a whole is most broadly defined by what it is not. It is not government. . . . On the other hand, the third sector is not business” (Commission on Private Philanthropy, 1975, p. 31). One definition hinges on what its author calls the “nondistribution constraint”: “A nonprofit organization is, in essence, an organization that is barred from distributing its net earnings, if any, to individuals who exercise control over it, such as members, officers, directors, or trustees” (Hansmann, 1980, pp. 835–836). This is essentially a restatement of a provision in the U.S. Tariff Act of 1913, in which Congress stipulated that organizations involved in certain efforts “no part of the net income of which inures to the benefit of any private shareholder or individual” were exempt from the new federal income tax (quoted in Hopkins, 1998, p. 32). Another definition lists six characteristics: nonprofits are (1) organizations or institutionalized to some extent, (2) private or not part of government, (3) non-profit-distributing, (4) self-governing, (5) voluntary or noncompulsory and involving some meaningful degree of voluntary participation, and (6) of public benefit, “that is, they serve some public purpose and contribute to the public good” (Salamon, 1999, pp. 10–11; see also Salamon