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Economic Theories of Nonprofit Organizations

An Evaluation

| Chapter

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The Study of the Nonprofit Enterprise

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Abstract

What makes for a good theory in economics? Tastes and opinions differ on this important issue, with some admiring the mathematical elegance and logical completeness of analysis, some admiring the metaphoric insight provided by deep description, and others admiring the development of new analytic tools rather than the application of those tools to nonprofit issues. In this Chapter, I choose to evaluate economic theories of the nonprofit sector by their ability to answer what I regard as the central questions in (a) describing the sector; (b) formulating

governmental policy towards the sector; and (c) managing nonprofit organizations. More specifically, I discuss theories' ability to enlighten our understanding of the scope of inquiry, the determinants of the size and scope of the nonprofit sector, and the behavioral responses of donors, volunteers, paid staff, and nonprofit organizations to changes in their external environment. I then turn, more briefly and selectively, to theories' ability to inform tax policy towards donations, taxation of nonprofit entities, competition among and between organizations in the various sectors, and fundraising regulation. Finally, I briefly discuss theories' ability to improve the pricing, fundraising, and evaluation functions of nonprofit management.

Note: A shorter version of this chapter has been published as "Overall Analysis of Economic Theories" in *Voluntas*, 8, 179-204. The sections on governmental policy towards and management of nonprofit organizations are new to this version; the rest is updated from the previously published version.

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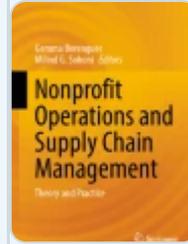
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