

2 *An Overview of Nonprofit Sector Theories*

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We are not the first to puzzle about nonprofit organizations and sectors. In fact, over the last half century, scholars have developed several compelling explanations for *what* and *why* nonprofits are, and these explanations have become the conventional wisdom for people who wonder about such things (see Anheier 2005; Frumkin 2005; Ott & Dicke 2015; Powell & Bromley 2020; Powell & Steinberg 2006). The goal of this volume is to expand the canon, but before critiquing traditional explanations or offering altogether new accounts, it helps to take stock of where we've been. The purpose of this chapter, then, is to briefly review 10 answers to the book's motivating concerns: What is the nonprofit sector? And, Why nonprofits?

As we explained in Chapter 1, our interest is in explaining the existence of voluntary, prosocial, and organized action. As theories, these explanations are generalizable observations, meaning that they are intended to provide ideas that transcend a particular time and place. As statements about the nonprofit sector, the theories deal with voluntary and organized action that is not aimed at self-enrichment. They give insights about the nonprofit sector in part by describing how or why nonprofit action is different from other types of action and organization, such as those that are typically thought of as government or business. These theories are not all origin stories, per se. Rather, some theories provide a description of what the sector is. They describe the role the nonprofit sector plays in society, regardless of how the sector came about in the first place. And some are normative justifications of the sector, advocating for what the sector should be and why a nonprofit sector is desirable.

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Although the premise of this book is that the portfolio of explanations available to students of the nonprofit sector needs continual revision and expansion, it would be foolish to consider the already existing explanations as entirely problematic. True, the work of theorizing the nonprofit sector is not yet complete, but the authors of these original explanations asked important questions. They contemplated why nonprofits exist and how we should think about their role in political, social, and economic spaces. Those same questions still motivate us. Moreover, those who asked these questions provided compelling and often sophisticated answers, which necessarily shape how we approach the questions today. While understandably imperfect, their writings framed the subsequent conversations that took place in classrooms, hallways, conferences, journals, board rooms, and government offices.

We cannot hope to do justice to the full range of existing explanations, which we differentiate here for expository convenience. Nor can we document exhaustively the trajectory of any one idea. Instead, we provide an overview of what we see as the core explanations that have informed thinking and writing about nonprofits since the 1970s, identifying in the process 10 answers to the questions of what the sector is and why it exists. Some caveats to this approach are necessary. First, sometimes different but related ideas come out of the same writings, from the same authors. We separate those core ideas here because we see them as analytically distinct, able to stand on their own. Second, we recognize that each of these explanations has generated considerable discussion, critique, and refinement. We do not present them here because we necessarily believe they are accurate or incontestable. Rather, we see these as the elemental notions that have since been elaborated upon as the field of nonprofit studies has grown and evolved. In this overview, we stick to the core arguments, as stated by the people who articulated them. We leave the remainder of the volume – and, hopefully, future work – for critiquing and offering new perspectives. Third, in some cases it is nearly impossible to declare authoritatively where an idea began. In such cases, we point to the author(s) whom, in our judgment, scholars of nonprofits commonly reference when repeating the argument.

A note on nomenclature. The explanations reviewed in this chapter come from a variety of historical and disciplinary contexts, each with its own preoccupations and specialized vocabulary. Some authors write about nonprofits, others about voluntary organizations,

associations, civil society entities, charities, the commons, and more. Some are explicitly concerned about the creation of a nonprofit sector, while others come at it indirectly. These nuances are important, but the consequence is that scholars of nonprofit studies often, for better or worse, resort to using the terminology of nonprofit organizations and sectors to describe a wide range of types of organizations (grassroots coalitions, associations, foundations, etc.). For instance, although Tocqueville never used the term “nonprofit,” scholars who study nonprofit organizations use his ideas to understand nonprofits, and they use terms like “nonprofit” as they do. For ease in providing a high-level overview while moving across multiple traditions, we have done the same. We acknowledge that doing so might be grating to specialists, but we beg forgiveness for a simplified overview such as this.

2.1 Historical Context

The early 1970s to the late 1980s was a rich moment in the history of nonprofit studies. It was during these decades that the “nonprofit sector” started being recognized as such (Barman, 2013; Hall, 1992; Hodgkinson & Painter, 2003; Smith, 1999, 2016). Prior to the late 1960s, nonprofit organizations certainly were operating in varied fields, but they had not yet come to be seen as occupying a distinct sector of the economy vis-à-vis the government and private sectors. This started to change as criticisms of foundations and charities in the US, taking form partially in the Tax Reform Act of 1969 (Hall, 1992), motivated scholarship on the kinds of organizations we now refer to as nonprofit. The result was an emerging notion that foundations, charities, and other entities were in fact part of an interconnected sector (Barman, 2013).

Perhaps the most significant effort to study nonbusiness, nongovernment organizations took place under the auspices of the Filer Commission. The Filer Commission was a private group of prestigious members whose purpose was, in part, to “study the role of both philanthropic giving in the United States and that area through which giving is principally channeled, the voluntary, ‘third’ sector of American society” (Commission on Private Philanthropy and Public Needs, 1975, p. 1). Notably, the Commission referred to the “third sector” as “one of the least chartered regions” and “something of a terra incognita, barely explored” (p. 31). That would not last long, however, as

the Commission's report conveyed a new vision. According to Hall (1992), it "gave substance to what, up to then, had been only an idea that charitable tax-exempt organizations composed a coherent and cohesive 'sector' of American political, economic, and social life" (p. 78; see also Hodgkinson & Painter, 2003).

The development of the so-called nonprofit sector was a result of, and was in turn energized by, research on foundations and charities (Smith, 1999, 2016). The creation of the Association of Voluntary Action Scholars (AVAS), established in 1971 (the precursor to the Association for Research on Nonprofit Organizations and Voluntary Action) and itself built on the work of the Center for a Voluntary Society, was key to establishing an academic field and, arguably, the sector itself (Smith, 1999, 2003, 2016). So was the establishment of a new journal, the *Journal of Voluntary Action Research* (later renamed *Nonprofit and Voluntary Sector Quarterly*), the first scholarly publication dedicated solely to the study of voluntary associations and nonprofit organizations.

Other notable moments shaping the history of the sector also occurred around this time. Partly inspired by the Filer Commission's recommendations (Hodgkinson & Painter, 2003), the Independent Sector was founded in 1980 as the first sector-wide professional association in the US designed to represent the interests of nonprofit organizations of all types. It reflected and no doubt further solidified in the public imagination the notion of a more or less discrete nonprofit sector. The same can be said for the cohorts of graduating students of professional nonprofit management programs (Mirabella, 2007; Mirabella et al., 2019), who were socialized into adopting the emerging view of the nonprofit sector as they came to be employed in it.

Outside of the US, but influenced by developments taking place there (Smith, 2013), scholars in Europe and other parts of the world also started focusing their attention on voluntary, third-sector organizations. For instance, the Association for Research in the Voluntary and Community Sector was formed in the UK in 1978; an AVAS spin-off held its first meeting in Brussels in 1980 (Smith, 2003); and the journal *Voluntas* started publication in 1990, followed two years later by the formation of the International Society for Third Sector Research (ISTR) (Hodgkinson & Painter, 2003). Dozens of centers, networks, programs, and associations were established in these and

subsequent decades (Smith, 2013, 2016), which further internationalized the study of nonprofit organizations. Similar to what AVAS had done in the US, these organizations gathered scholars from a variety of disciplines to establish a new field of study, lending further credibility to the idea that the diversity of organizations, from cooperatives and grassroots enterprises to foundations and professional associations, could all be thought of as occupying a single nonprofit sector.

Thus, starting in the US, and then moving abroad, the idea of a nonprofit, independent, or third sector came into being. Its creation was not only the consequence of actual changes among nonprofit and nonprofit-serving organizations (e.g., the establishment of sector-wide advocacy groups) but, importantly, was also the outcome of people – scholars, policy experts, practitioners, and so on – who were starting to think about nonbusiness, nongovernmental organizations in a new way.

With the sector now constructed, it deserved an origin story, or at least an accounting. Scholars therefore turned their attention to questions about *what* the nonprofit sector was and *why* it existed – concerns that would preoccupy the field for decades more to come (Hodgkinson & Painter, 2003). Political scientists, legal scholars, economists, and philosophers had already developed justifications for governments and for-profit firms. But, as Hansmann observed as late as 1980, “The existing literature in law and economics ... [had] largely overlooked nonprofit institutions” (p. 836). This is partly attributable to the fact that the idea of a unified sector was only a recent development. And although scholars had long studied nonprofit organizations (see Steinberg, 2006, p. 119 for a partial review), the products of this research were not the kind of broad explanatory accounts upon which the field of nonprofit studies could be built. So, starting in the 1970s, scholars started developing explanations for why nonprofit organizations exist and what their place is or should be in modern society. I present them here in order of thematic relevance, not chronologically.

2.2 Nonprofits as Solutions to Market and Government Failures (Market Failure Theory, Government Failure Theory)

In justifying the existence of nonprofit organizations as part of the organizational, political, and economic landscape, scholars articulated arguments that have come to be known as “failure” explanations. The basic logic of these arguments is always the same: the existence of

nonprofits is explainable by some social or economic need that other societal institutions have failed to provide. Explanations focusing on market and government failures came first.

Notwithstanding Hansmann's lament in 1980 that legal scholars and economists had overlooked nonprofit organizations, Burton Weisbrod, an economist at the University of Wisconsin, had already laid out an economic rationale for nonprofits in the early 1970s. He did so first in 1972 (reappearing later in chapter 3 of Weisbrod, 1977). At this point in time, the idea of "market failure" was well established in the economics and public administration literatures (e.g., Bator, 1958), so Weisbrod's contribution was mainly to connect it to the existence of nonprofit organizations. He did so by noting, as others had done, that governments will provide collective goods because markets often do not. However, not everyone is satisfied with government provision, especially when there is excess demand or preferences are heterogenous (James, 1987). Government is a blunt tool, sometimes providing just enough – but often too little or too much – of what people want. Weisbrod argued that when government supply does not match constituent demand, and private sector substitutes are unsatisfying, then consumers may turn to nonprofits (see Steinberg, 2006; Young, 2000). Nonprofits have the flexibility to be prosocial (not just pro-profit), unlike businesses. But they also aren't beholden to the popular will of the people.

Weisbrod understood nonprofit organizations to be a direct response to market failure as well as an indirect response to market failure through government failure. He noted that the voluntary production of collective goods in many ways historically *preceded* the government provision of them, suggesting that nonprofits were responding directly to market failures even before governments were widely seen as responsible for supplying the variety of services expected from them today (Weisbrod, 1977). Although the language of failures and responses to failures implies a certain sequencing (i.e., first market failure, then government failure, and then nonprofits), the temporal ordering was unimportant to Weisbrod (1972, 1977). What *was* important was that nonprofits could be accounted for by unmet demand owing to market and/or government failures.

The result of Weisbrod's scholarship was that it provided a compelling account of why nonprofit organizations operate alongside, and sometimes instead of, businesses and governments in the modern

(albeit US) economy: Why do nonprofits exist? Because they provide goods and services that people want but governments and private businesses are unable or unwilling to supply. Why are there nonprofit food banks but not nonprofit fast-food restaurants? Because there is a market for fast food and not for food banks, notwithstanding the need for both. Why are there nonprofit universities and public ones? Because nonprofit universities can cater to the needs of particular groups of constituencies (religious minorities, elites, etc.) in a way that the state cannot. Weisbrod provided a justification for nonprofits' place in the social, political, and economic landscape (Hansmann, 1980).

2.3 Nonprofits as Remedies to Contract Failures (Contract Failure Theory)

Another of the failure theories was developed only shortly after Weisbrod's writing. Its advocate was Henry Hansmann, a young legal scholar at the University of Pennsylvania. Complementary to Weisbrod's view, the theory gave insight specifically to the circumstances under which nonprofits respond to market failures. Whereas for Weisbrod nonprofits arise to solve collective action problems that governments are unable or unwilling to address, for Hansmann the role of nonprofits was to address information asymmetry problems in the marketplace. Nonprofits remedy a problem he called "contract failure," which is a specific type of market failure.

Hansmann developed his "general theory" (Hansmann, 1980) of nonprofit enterprise in a pair of legal essays written in the early 1980s. Building on the insights of Arrow (1963), Weisbrod, and others, he articulated a reason why nonprofit organizations would exist in market societies in which the forces of supply and demand should be sufficient to guide business firms in distributing goods efficiently. In fact, he wrote, there are some goods whose quality consumers are not able to judge, or providers whose credibility is difficult to ascertain (p. 844), and this limits how effectively markets can allocate them. Because of information asymmetries between business firms and consumers, businesses are able – and incentivized – "to charge excessive prices for inferior goods" (p. 835). This market failure – he called it contract failure because the root problem is the inability of consumers to monitor their contracts with providers – is one that the government is suited to address by certifying a type of organization

(i.e., the nonprofit enterprise) to operate ostensibly without a profit motive (Salamon, 1987).

Nonprofit organizations help consumers deal with information asymmetries because the law prohibits them from enriching shareholders with profits. This is why nonprofits are in high demand in certain industries – like humanitarian services, in which the consumer of a good is often not the same as the person paying for it (see Hansmann, 1980, p. 846; 1981a, p. 1633) – and, according to Hansmann, why governments should regulate and support them (see Hansmann, 1980, p. 898; 1981b, p. 55). As a theory of consumer expectations (Hansmann, 1987), it assumes that consumers are aware of organizations' nonprofit status and that they will favor nonprofits when purchasing goods whose quality is hard to judge or from organizations whose dependability cannot readily be determined (Handy et al., 2010). Although organizational status does not convey specific details about the good or service in question, it at least assures the consumer that the organization selling the product does not have an incentive to take advantage of the consumer's weak purchasing position. What nonprofits provide is trust (Salamon et al., 2017). Why do they exist? Because they solve information asymmetry problems in the market.

2.4 Nonprofits as Preceding the State and Market (Voluntary Failure Theory)

Lester Salamon, a policy scholar at Johns Hopkins University who had spent a considerable amount of time working in administrative positions at the US Office of Management and Budget and, later, at the Urban Institute, advanced yet another failure theory in the 1980s. Named “voluntary failure” theory (Salamon, 1987, 1995, 2002), it inverted Weisbrod's position that nonprofits “fill the gaps” left by market and then government failures. Salamon proposed instead that government action can be thought of as a response to the failures of volunteerism as nonprofits (and other voluntary initiatives) respond to market failures. Thus, although Weisbrod was insistent that the temporal ordering of failures was unimportant, Salamon viewed things differently. For him, it was voluntary action, not necessarily governments, that stepped in historically when markets failed. Why do nonprofits exist? Because there are needs that the market did not or could not address.

In light of this, the more pressing question for Salamon was, Why do governments ever become involved in addressing social problems? His answer was that they do so when voluntary organizations fail to address social problems in equitable, professional ways. “It is reasonable to expect,” he wrote, “that the private, nonprofit sector will typically provide the first line of response to perceived ‘market failures,’ and that government will be called on only as the voluntary response proves insufficient” (Salamon, 1995, p. 44). Although Salamon was not the first to note the possibility that governments step in when voluntary organizations fail (Commission on Private Philanthropy and Public Needs, 1975, p. 9; Weisbrod, 1977), he was the first to establish the idea as a theory of the role of nonprofit organizations in modern (still US) society.

Much of Salamon’s writing on this topic focused on documenting four classes of problems endemic to nonprofit organizations that might make government solutions desirable if not necessary: philanthropic insufficiency (nonprofits sometimes lack the resources necessary to accomplish their missions), philanthropic particularism (nonprofits often have a narrow focus, which can be manifest as favoritism or exclusivity), philanthropic paternalism (nonprofits are necessarily responsive to philanthropic donors, which may be at odds with the needs of the people they are serving), and philanthropic amateurism (nonprofits may be led by well-intentioned individuals who nevertheless lack professional expertise).

2.5 Nonprofits as the Consequence of Entrepreneurship (Entrepreneurship – or Supply-Side – Theory)

Failure explanations, sometimes referred to as demand-side theories, imply that one economic or political institution’s inability to provide a needed good or service is useful for explaining the existence of nonprofit organizations. For instance, the availability of nonprofit provision alongside the absence of market or government provision is taken as evidence that nonprofits are filling the needs left unmet by market and government inaction. But as any undergraduate studying economics understands, demand alone is insufficient to explain production. Supply is also needed, and failure explanations do little to account for who is “supplying” nonprofit organizations and what their motivations are for doing so (Salamon et al., 2017; Steinberg, 2006).

Dennis Young was among the first to address this issue by constructing a supply-side theory of the nonprofit sector. Beginning with a paper in 1981, which was developed further in a 1983 monograph, Young developed a theory of entrepreneurship that addressed how entrepreneurs sort themselves into different industries and sectors. (Entrepreneurship was not a new academic focus. But as Frank noted in his foreword to Young's book, scholars had at this point in time focused mostly on entrepreneurship in the business sector [Young, 2013].) The starting point for Young's analysis (1981, 1983) was constructing ideal types of entrepreneurs, who differ according to their experiences, values, interests, and tolerance for risk. These characteristics orient the entrepreneurs to particular industries, which themselves vary according to what they can provide the entrepreneur in terms of the type of service they want to provide (e.g., social versus technical), their desire for professional control, their affinity for prestige, and the like. Once an entrepreneur selects an industry, they might further sort themselves into a sector (e.g., nonprofit, business, government) based on the value they place on things like income potential, the desire for bureaucratic flexibility, and the service ethic that prevails in the sector.

Later in the decade, James (1987) arrived at a similar conclusion about the importance of entrepreneurs when trying to understand the nonprofit sector. Whereas Young was investigating why entrepreneurs establish ventures in the nonprofit versus business or government sectors, James was interested in why some countries had larger nonprofit sectors than others. While paying due attention to demand-side variation, such as the diversity of the population, her theory also explored supply-side variability. Demand might create a market for nonprofit organizations, she reasoned, but it is entrepreneurs who meet that demand, and she argued that religious or ideological entrepreneurs, especially, helped account for nonprofit-sector differences across countries. As evidence that ideological entrepreneurship matters, James pointed to the considerable role that religious organizations played in establishing nonprofit organizations (e.g., in early twentieth-century Holland, religious groups established 95% of its private schools).

Perhaps more important than Young's answer to why some entrepreneurs choose to work in the nonprofit sector, or James's observation that religious movements established large parts of the sector, is that Young and James asked the questions in the first place. Any account of the nonprofit sector, they reminded us, must incorporate

questions about the people who populate the sector. Why do we have a nonprofit sector? According to this perspective, because there is a stream of entrepreneurs who, for a variety of reasons (not all of which are monetary), choose the nonprofit form as an outlet for their creative interests.

2.6 Nonprofits as Interdependent with Government (Interdependence Theory)

Salamon's ideas about voluntary failure were embedded in a larger critique of sector theory, not to mention a theory of the US welfare state, both of which moved the conversation in a different direction. Inspired by the observation that nonprofits work in close collaboration with governments in a way that prior theories did not anticipate, Salamon (2002) argued that nonprofits are co-deliverers of the welfare state and that any theoretical statement about the existence of a nonprofit sector must take this into account. Failure theories, which had dominated thinking about the nonprofit sector, portrayed governments and nonprofits as filling in where the other came up short. If Weisbrod had it right, nonprofits would provide needed services when governments would not. But how does that explain why governments and nonprofits so often work collaboratively – not one instead of the other but both together?

A student of the US welfare state, Salamon (1987, 2002; Salamon et al., 2017) observed an empirical fact that did not comport with prevailing explanations of the sector. It was that many nonprofits, particularly those working in human services, relied substantially on governments for their support. This pointed to the possibility of governments and nonprofits working together as complements rather than as substitutes. It was a pattern that had gone largely unnoticed, not because it was unimportant but because theory had prevented scholars from seeing it. "Few facets of the American welfare state," Salamon (1987) wrote, "have been so thoroughly overlooked or so commonly misunderstood as the role of the nonprofit sector and the relationships between nonprofit organizations and government. Yet few facets also are as important" (p. 29). He then exposed the culprit: "The partnership between government and the nonprofit sector has been overlooked, in my view, not because of its novelty or because of a lack of research but because of a weakness in theory" (p. 32).

The solution for Salamon (1987, 2002) was not only to update the received wisdom about nonprofits (i.e., to update the failure theories) but, more, to advance a new theory of “third-party government.” The idea, simple but perceptive, was that the US government relied on nonprofits to carry out many of the government’s functions. Salamon (1987) speculated that this was a consequence of the federal structure of the government and the nation’s pluralism, not to mention concerns about flexibility and economy. Young (2000) added that although governments are typically instrumental in addressing free-rider problems, that does not mean governments will necessarily provide the good or service themselves. Sometimes it is more efficient for the government to coerce people to pay taxes in order to help fund the provision of collective goods while relying on nongovernmental entities (i.e., non-profit organizations) to deliver them (Coase, 1990; Williamson, 1981; Young, 2000). Whatever the cause, Salamon and others spent the next decades uncovering the extent to which governments relied on nonprofits as “partners in public service” (Salamon, 1995) and as collaborators administering the “tools of government” (Salamon, 2002). Why, then, according to Salamon’s ideas about interdependence, do nonprofits exist? Because the government needs them to deliver the welfare state.

2.7 Nonprofits as an Outcome of Class Relations (Social Origins Theory)

Salamon had more ideas yet about the nonprofit sector. Building on his earlier theories, but now drawing on data from around the world, he and his collaborators puzzled over why there was such significant cross-national variation in nonprofit sectors. Their observations led them to develop a new explanation of nonprofits, one that they called the social origins theory of civil society (Salamon & Anheier, 1998). This approach was fundamentally different from those that came before it. Demand-and-supply explanations locate explanatory power in the preferences and sentiments of individuals but, Salamon argued (2017), they fail to acknowledge that the individuals theorized are themselves embedded in broader sociopolitical patterns that shape whatever rational choices people think they are making. Salamon’s task, as he saw it, was to uncover those hidden forces so that he could understand their role in shaping the development of civil society.

According to the social origins approach (Salamon & Anheier, 1998; Salamon et al., 2017), the historical development of nation-states is closely tied to the relationships among different classes in society. Although these relationship configurations in some instances took form hundreds of years ago, they did so at critical historical moments, with their impact casting a long shadow on civil society. Relationships among the classes are not wholly determinative, of course, and Salamon and colleagues identified a handful of other factors that likewise shaped the contours of civil society development – for example, the role of governments, political parties, and dominant ideologies. Nevertheless, patterns in power relationships are, to proponents of the theory, the central causal factor. Salamon and colleagues (2017) identified five such patterns, which he called traditional (in which nobility and landowners dominate), liberal (in which the bourgeoisie dominates), welfare partnership (in which landed and industrial elites face pressure from the working class), social democratic (in which worker mobilization is effective, yielding pluralist power-sharing arrangements), and statist (in which “modernizing elites” support militarization and industrialization).

An example is instructive. In a “social democratic” pattern of civil society development, as in Sweden, the power of landed elites was weak and the power of labor strong. As the country industrialized, the resulting power configuration was pluralistic, involving professional and commercial elites as well as support for a large working class. One outcome of the influential working class was that welfare services were seen as a right, and one typically provided by government. Nonprofits, under this regime, were not needed to deliver the welfare state, since there was considerable support for the government’s role in doing so. This rendered the service delivery function of nonprofits rather small. Instead, nonprofits operated primarily in expressive fields, like the arts, sports, and advocacy. Compare this to a “traditional” pattern of civil society development, in which the elite class is hegemonic, exploiting a primarily agrarian populace. Wary of threats to their power, the elites impose obstacles to civil society development, leaving the nonprofit sector small and fundamentally dependent. Fourteenth-century southern Italy is a case in point, as was India until recently.

Why do nonprofits exist? According to this perspective, the answer is a historical one. The existence of nonprofits, and how the sectors are organized in contemporary times, is the consequence of broad historical patterns, especially the relationships between classes.

2.8 Nonprofits as the Commons (a Theory of the Commons)

Some sector theories are descriptive explanations of what the nonprofit sector is, including the role that the sector plays in society. One such theory was formulated by Roger Lohmann, who advocated for a positive account of nonprofits. Famously, he complained that describing *nonprofits* by what they are *not* (they are not government organizations; they are not for-profit businesses) is like calling lettuce a nonanimal (Lohmann, 1989) – a description that is technically accurate but substantively unhelpful. He also took issue with the generally negative portrayal of nonprofits as being important only when businesses and governments fail to provide for goods and services demanded.

Lohmann offered an alternative account of the sector, one that saw it as a unique kind of environment in which groups produce a particular type of good. For him, the sector is a commons – a space of free, uncoerced participation in which people come together with shared resources, to pursue a shared purpose, and in a way that creates a sense of mutuality and fairness (Lohmann, 1992a, pp. 312, 320, 321).¹ Importantly for Lohmann, the commons isn't just filling in where other sectors fail – a negation-based accounting indeed. Rather, the people occupying it actively produce the “purposes, goals, objectives, and outcomes” (p. 320) that they care about. Mass is a common good for Catholics, as is the play of a soccer game in a community sports league.

Crucial to this telling of nonprofits is that each sector is governed by a different imperative, which has implications for why people participate in them. Markets are for producing private goods. Governments are for producing public goods. And the commons are for producing common goods. Whereas people engage in for-profit businesses primarily to secure private financial resources, they come to the commons to produce goods that are often nonpecuniary in nature – language, art, ceremony, myth, contemplation, inquiry, and self-expression, to

¹ Although the Ostroms and Lohmann share an interest in the commons, their work was largely not informed by each other's. Lohmann (2016) noted that “sociologists, social workers, volunteer action coordinators, and voluntary action practitioners who formed the core of the initial membership of AVAS had at the time a seemingly unrelated agenda of interests and were working in an entirely different academic silo from that of Hardin, the Ostroms, and the economists and political theorists interested in collective choice problems” (p. 30S).

name a few (Lohmann, 1992b, pp. 67, 95). Why is there a nonprofit sector? For Lohmann, the answer is that the sector is a setting for gathering and expressing that is neither coerced by government nor compelled by the market.

2.9 Nonprofits as Vehicles for Creating Meaning and Checking Power (a Theory of Mediating Structures)

Related to the notion that the nonprofit sector is a commons is the argument that nonprofit organizations help individuals navigate the complexities of modernity by collecting individual interests and positioning them against large, impersonal bureaucracies. From this perspective, nonprofits are desirable not only because they provide spaces for pursuing shared purpose (which was Lohmann's point) but also because they form a bulwark against the institutions that dominate modern society – such as the welfare state and multinational corporations. Berger and Neuhaus articulated this view in 1977, and scholars of nonprofits often point to their short book when referencing it, but the core idea is repeated throughout the long history of political and social science writing (Edwards & Foley, 2001; Fung, 2003; Tocqueville, 2004; Villa, 2006).

For Berger and Neuhaus, there is a critical tension in modern societies: On the one hand, modern societies are dominated by large and impersonal institutions, vast bureaucracies whose effect on individuals is alienating. “One of the most debilitating results of modernization,” they wrote, “is a feeling of powerlessness in the face of institutions controlled by those whom we do not know and whose values we often do not share” (Berger and Neuhaus, 1977, p. 7). On the other hand, paradoxically, members of society want the institutions. As much as they are against big government, they are committed to social security and Medicare. As much as they want to support local businesses, they shop at Walmart. The consequence is that the megastructures are here to stay, for good or ill.

Acknowledging this, Berger and Neuhaus advocated for public policies that would protect and support what they referred to as “mediating structures,” such as the neighborhood, the family, the church, and voluntary associations, or what we are referring to here as organizations in the nonprofit sector. As “institutions that mediate between the two spheres” – that is, between individuals and large

bureaucracies – mediating structures are thus one solution to a central problem of modern life. According to Berger and Neuhaus (1977), “Such institutions have a private face, giving private life a measure of stability, and they have a public face, transferring meaning and value to the megastructures” (p. 3). Without mediating structures, individuals would be left to confront the megastructures on their own, and they surely would fail. As “value-generating” and “value-maintaining” agencies (p. 6), mediating structures provide spaces to come together and create meaning in an alienating world.

Mediating structures are therefore necessary to the expressive function of the sector (Frumkin, 2005), but they are more than that. Berger and Neuhaus’s argument suggests that these islands of expression and meaning also have an instrumental purpose: They push back against state power and other interests (Lechterman & Reich, 2020). They thus have a contestatory function too: raising a collective voice, representing varied interests, and checking entrenched power. “Civil society gives identity and voice to the distinct interests and diverse points of view characteristic of modern society,” Edwards and Foley (2001) write (p. 6). “It stimulates public debate and presses government for action on a thousand and one matters of public interest.”

Why is there a nonprofit sector? The answer here is a descriptive and normative one. Nonprofits are useful – and desirable – to people who want to find and share meaning *and* are critical for those who want to mobilize and resist according to their shared values.

2.10 Nonprofits as Incubators of Democratic Citizens (a Theory of Associationalism)

Berger and Neuhaus’s mediating-structures theory has a strong affinity with some well-known political theories that connect the nonprofit sector to the healthy functioning of democracies. Perhaps the most well known of these is identified with Tocqueville’s (2004) writings about associational life in the early United States. In his text *Democracy in America*, Tocqueville observed that “Americans of all ages, all conditions, and all minds are constantly joining together in groups” (p. 595). He wrote memorably that “wherever there is a new undertaking, at the head of which you would expect to see in France the government and in England some great lord, in the United States you are sure to find an association” (p. 595). The reason for joining

associations, Tocqueville argued, is that in a context as comparatively equal as America, individuals are relatively weak: “They can do almost nothing by themselves.” They therefore form associations to pursue their collective interests. “From that point on,” he said, “they cease to be isolated individuals and become a power to be reckoned with...; a power that speaks, and to which people listen” (p. 598).

Tocqueville’s ideas feel similar in spirit to Berger and Neuhaus’s theory, and there are certainly overlaps. But it is important to note the particular emphasis Tocqueville placed on the effects of association on the individuals who associate. For him, the joiners learn something about how to engage in a democracy. Individuals associate, and “the more of these small joint affairs there are, the more capable men become – perhaps unwittingly – of pursuing large affairs in common” (Tocqueville, 2004, p. 604). They learn “how order is maintained where large numbers of people are involved, and how those large numbers of people can be made to march in step and according to plan toward a common goal. They learn to subject their will to the will of all and to subordinate their individual efforts to the joint venture.” Associations, Tocqueville asserted, “can therefore be looked upon as vast free schools to which all citizens come to learn the general theory of associations” (p. 606).

The notion that the sector could help serve an important democratic function captured the imagination of scholars of nonprofits (Clemens, 2006; Edwards & Foley, 2001; Frumkin, 2005; Fung, 2003; Lechterman & Reich, 2020; Putnam, 2000; Putnam et al., 1992). From this view, the nonprofit sector isn’t just a place where people unite their interests and represent them to the state and society (the point of the mediating-structures argument). It is also a space where important things happen to the people who associate. Primary among them are that individuals learn the habits and skills necessary for engaging in democratic society. Nonprofits, then, become the so-called schools of democracy. In them, people learn to organize, share ideas, and communicate their interests.²

Why is there a nonprofit sector? Normatively, the nonprofit sector exists as an important space for learning to engage with and building the social connections necessary for a thriving democracy.

² For an alternative reading of Tocqueville’s take on the value of civic associations, see Villa (2006).

2.11 Summary and Conclusions

The 10 theories reviewed here make up, arguably, the canon of sector theory. Scholars refer to them, written introductions to the field cover them, and we suspect that most undergraduate and graduate surveys of the field of nonprofit studies review them. Table 2.1 provides a summary, and Lepere-Schloop and Nesbit offer an empirical assessment in Chapter 3.

I offer here a few observations. Note first that this is not an exhaustive list of all the theories that scholars of nonprofits rely on in their work. I have focused here on sector theories, so the perspectives previously summarized deal primarily with the question of what the sector is and why we have nonprofits. It is also worth observing that I have laid out the theories in elemental form, when in practice they are not often treated in isolation (e.g., James, 1987; Steinberg, 2006). Some of the theories take an economically rational perspective, starting with individuals making choices based on some sort of cost–benefit analysis and resulting in the existence of a sector (e.g., contract failure theory, supply-side theory). Others follow a functionalist logic, in which the existence of the sector is presumed to meet some prior need (e.g., market and government failure theories). Most are US-centric, at least in their development if not in their application. And there is a tendency to equate sector theories with legally delineated nonprofit organizations, which are themselves defined by tax codes (at least in the US).

Nor is this a complete list of all explanations for the nonprofit sector. Others have written about nonprofits as sites of social experimentation (Douglas, 1987) or as critical elements of the public sphere (see Lechterman & Reich, 2020’s discussion of Habermas). Still others might see nonprofits as, essentially, a special case of private enterprise (Fram & Withers, 1999). The list could go on, so the point is only that there are certainly other answers to the what and why of nonprofits. That said, I believe the 10 perspectives summarized here provide a sufficient introduction to the prevailing wisdom, making the remainder of the volume more comprehensible.

In the introductory chapter, Witesman and I embraced an expansive approach to theory. Rather than get bogged down in debates about what counts as theory, we reframed the question. Sector theory, we argued, is simply an answer to the questions, What is the nonprofit sector, and Why do we have nonprofits? Some answers can be

Table 2.1 *Summary of sector theories*

Theory	What is the nonprofit sector? Why nonprofit organizations?	Noteworthy
Market failure (nonprofits as solutions to market and government failures)	Nonprofit organizations exist because markets sometimes fail to provide goods and services demanded.	Markets are assumed to be the primary mechanism for producing and distributing goods and services.
Government failure (nonprofits as solutions to market and government failures)	Nonprofit organizations exist because markets and governments sometimes fail to provide goods and services demanded.	Markets are assumed to be the primary mechanism for producing and distributing goods and services. Governments come next. When both fail, nonprofits fill in the gap.
Contract failure (nonprofits as remedies to contract failures)	Nonprofit organizations exist because consumers are sometimes unable to trust contracts with for-profit providers.	A special case of market failure.
Voluntary failure (nonprofits as preceding the state and market)	Nonprofit organizations exist because markets sometimes fail to provide goods and services demanded. Governments help out when nonprofits fail.	Markets are assumed to be the primary mechanism for producing and distributing goods and services. Contrary to the expectations of government failure theory, however, in this account nonprofits respond first to market failure. Governments step in when nonprofits are insufficient.
Entrepreneurship (nonprofits as the consequence of entrepreneurship)	Nonprofit organizations exist because entrepreneurs have an interest in creating them.	Also referred to as supply-side theory. Shifts attention away from unmet demand (a key criterion of failure theories) and focuses instead on the interests of entrepreneurs who supply the sector with nonprofit organizations.

Table 2.1 (cont.)

Theory	What is the nonprofit sector? Why nonprofit organizations?	Noteworthy
Interdependence (nonprofits as interdependent with government)	Nonprofit organizations exist partly because governments rely on them to deliver the welfare state.	Whereas government failure theory suggests nonprofits fill in where governments fall short, interdependence theory highlights the complementary relationship between governments and nonprofits.
Social origins (nonprofits as an outcome of class relations)	Nonprofit organizations (their existence and the characteristics of the sector) are shaped by the history of broad sociopolitical patterns, in particular the relationships among classes.	Does not refute the other theories but emphasizes that the nature of the nonprofit sector must be understood through a historical lens.
The commons (nonprofits as the commons)	Nonprofits are spaces of free, uncoerced participation where people come together with shared resources to express and pursue a shared purpose, doing so in a way that creates a sense of mutuality and fairness.	A positive account of nonprofit organizations. Focuses on what nonprofits are instead of what they are not.
Mediating structures (nonprofits as vehicles for creating meaning and checking power)	Nonprofit organizations combine shared interests and push back against entrenched power.	A normative theory, suggesting why members of modern welfare states should want to support nonprofits.
Associationalism (nonprofits as incubators of democratic citizens)	Nonprofit organizations exist to socialize citizens, which has benefits for democracy.	A normative theory, connecting nonprofits to democratic functioning.

understood historically, as authors trace the origins of nonprofit organizations and sectors over time. Salamon's social origins approach is the most historical of the theories listed in Table 2.1. Voluntary failure theory can be understood historically as well. Other theories are descriptive, providing accounts of the role that nonprofits (or the sector broadly) play in society. These are quite common, and virtually all the examples from Table 2.1 have some descriptive component. Lohman's commons approach, especially, contemplates what the nonprofit sector is. Finally, some theories are normative, meaning that the statements are used to suggest a vision for the way society should be, regardless of whether it is already so. Berger and Neuhaus's mediating structures theory and Tocqueville's theory of democracy are often used with a normative bent.

Of course, this is necessarily an overview. Each argument has a life of its own, so to speak, with a history of embellishments, refinements, and critiques. Rather than work through the trajectory of each concept, my purpose here has been to introduce readers to the central idea that the original author(s) was trying to convey. Moreover, aside from pointing out how one of the theories might be based on a criticism of a prior theory, I have not offered much by way of my own critique. The field of nonprofit studies owes a lot to these pioneering ideas, so it seems appropriate first to spend some time understanding them on their own terms before picking at them. Many of the chapters that follow include substantive critiques, and Witesman offers some useful ideas for how to evaluate the quality of sector theories in Chapter 4.

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