Chapter 8

Policy Formulation, Nonprofit Advocacy, and the Principal-Agent Framework

As social capital assets and agents of public policy, nonprofits are not passive purveyors of the public’s will. Some seek to shape that will and to influence the policies that are promulgated in the name of the public. This chapter is about nonprofits as promoters of specific policy positions. Chapters 1–5 reminded us that a nonprofit association is a form of structural social capital formed by individuals with common interests and in which transactions among them are embedded with common understanding, objectives, trust, and a cooperative motivation to achieve a common goal and to take collective action to promote a common goal. Collective action need not be unanimous.

The common method used by associations to achieve these goals in public policy is lobbying and politicking of politicians, candidates, and executives responsible for writing and enforcing rules and regulations that activate a law once it is passed. This chapter will focus on the business association, mostly 501 (c ) (6)s in U.S. law. But such associations exist throughout the world. Few countries are without a chamber of commerce or its equivalent and a common purpose of these and other associations to shape policy.

The Association as Social Capital: Sources of Coherence and Power

An association is the coming together of individuals or entities because of a common, identifiable interest. The congregation, the conglomerate, the political party are all associations. While loosely fitting associations may form social capital for
other purposes, they are less appropriate within this context because the association must also be an agent and the agent must therefore be an identifiable person or entity capable of signing, discharging, or dispensing of a contract with the resulting exposure to reward or legal sanction. Therefore, this chapter focuses on the association as a formally organized nonprofit with a charter—a license of eligibility to work on behalf of a group with the ultimate beneficiary being the public. All associations, including the church, temple, mosque, or synagogue, which are tax exempt, fall into this category.

In the same way, business associations and professional associations are social capital assets. They meet all five distinguishing features laid out in chapter 3, except they do not get financed by tax-deductible contributions, but by dues and by tax exemption of a variety of revenues. Because dues are voluntary, they like donations, are indicators of the association’s value to those who pay.

Various associations represent differing cognitive social capital, and these distinguish them. A business association is distinguished cognitively from others by its common interest in the affairs of business; and within these, business associations are further distinguished by particularistic interests. Accordingly, there are numerous U.S. and foreign associations within the liquor, restaurant, and grocery businesses, some representing a particular product or a particular stage in the supply chain from production to distribution to consumption. Together they form an ever-changing network (coalitions for and against) depending upon the public policy issue.

When Granovetter¹ and Uzzi² wrote their essays on business groups they were concerned with the interaction of productive units such as either vertical or horizontal integration. In this chapter we are concerned with associations in the way economists use clubs. Drawing from Buchanan³ and Tiebout,⁴ Cornes and Sandler⁵ describe a club. A club is a group of individuals who voluntarily join together to share something in common:

1. Members of a club belong because the utility of membership exceeds the utility of nonmembership.
2. For a member, the net gain from membership must exceed the cost of membership.
3. Club goods usually involve congestion or crowding—the more people consuming it, the less available to others; there is potential rivalry over its consumption.
4. Clubs can limit their memberships to a subset of the population.
5. Clubs can institute mechanisms of exclusions such as a price for some products or a membership fee.

A club good is distinguishable from a public good in that a pure club good is made available only to members. But when an association lobbies for a highway, the public at large is affected. At the same time associations produce seminars, insurance programs, trips, and the like that may be completely closed to nonmembers. In short, a business association is of public policy importance not only because of what it does for its members but what the impact is on the public. Certifying physicians helps physicians and the public.