

Reflections, Past and Future

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Itinerant Thespian Economist

Foreshadowing

- Philanthropy Research Workshop (The Workshop formerly known as WIMPS, Workshop in Multidisciplinary Philanthropic Studies)
- Economics for Nonprofit Managers and Social Entrepreneurs and the challenges of writing a textbook
- Chapter on Cost Benefit Analysis: Basics and Research Opportunities

WIMPS and PRW

- 13 years of seminars. Full list posted.
- Started because of Econometrics term papers and Research Department Work, Summer 2006.
 - Kathy S. Steinberg (Assistant Director of Research, Center on Philanthropy and Center for Service Learning, IUPUI), presenting, Melissa Brown (Assistant Director of Research, Center on Philanthropy, IUPUI), Heidi Frederick (Research Department, Center on Philanthropy, IUPUI), and Patrick Rooney (Director of Research, Center on Philanthropy and Professor of Economics, IUPUI). “Surveying Nonprofits for Giving USA.”
 - Sarah Easterday (MA in Economics, IUPUI and Indiana Budget Agency). “Gods and Gifts: Religion’s Effect on Secular Giving.”
 - Shruti Dubey (MA in Economics and Center on Philanthropy, IUPUI). “Stability of Generosity.”

Goals

- Learn about the work of colleagues and students
- Build an intellectual community across disciplines and fields
- Educate graduate students (and less experienced faculty)
 - Research as it is done: process, choices, coping with setbacks
 - What's hot.
 - Show them they can contribute
- Networking.
 - For jobs
 - For P&T letter writers
- Overcoming Economics Dept. Limits

Criteria

- Academic Research
- At the working paper stage
- With rare exceptions (e.g., this talk)

Challenges

- Attendance
- Balance
 - Disciplines and fields
 - Stars and up-and-comers
 - Students and faculty
 - Insiders and Outsiders
 - Methodologies – qualitative, natural data, experiments
- Institutional Support
 - Volunteer (student/alumni) Assistants
 - Rewarded by title, line on vita, and warm glow. Thanks especially to Nancy Goldfarb, Peter Weber, Marty Sulek, Ellie (Heng) Qu

Challenges

- Also rewarded by RA position. Thanks especially to Barbara Duffy, Jin Ai.
- Volunteer Faculty Support (Rewarded also by Service Credit).
 - Thanks especially to Dwight Burlingame, Lehn Benjamin, Laurie Paarlberg
- Travel support for outside speakers
 - Early days – none. Piggyback; Teleconference; Begging for special opportunities
 - Now well funded.
- Staff assistance
 - Rotating cast of people with primary appointments elsewhere, but Susan Lutz took a more stable role, as did Andy Ware
 - Problematic UITS
- Me

Statistics on Presentations

- Inter-rater correlation of 1 !
 - But there was only one rater
 - Methodology was arbitrary, poorly documented, sloppy, but sincere.
- By type of presenting authors (n=215)
 - Faculty: 142 (66%)
 - Students: 56 (26%)
 - Staff: 10 (4.7%)
 - Other: 7 (3.3%)

Statistics on Presentations

- By Disciplinary Home of Presenting Authors (n = 215)
 - Philanthropic Studies 51 (24%)
 - Public Affairs 38 (18%)
 - Economics 31 (14%)
 - Sociology 17 (8%)
 - History 15 (7%)
 - Psychology 12 (5.6%)
 - Political Science and Religious Studies 9 each (4.2% each)
 - Law 8 (3.7%)
 - Also some Social Work, Philosophy, Accounting, Management, Higher Education Administration, English, Marketing, Anthropology

Statistics on Presentations

- By Disciplinary Focus of Paper (n=211)
 - Economics 31 (15%)
 - Philanthropic Studies NEC 29 (14%)
 - Public Affairs NEC 27 (13%)
 - History 24 (11%)
 - Sociology 21 (10%)
 - Psychology 13 (6%)
 - Nonprofit Management 11 (5%)
 - Political Science 10 (5%)
 - Religious Studies NEC 7 (3%)
 - Law 6 (3%)
 - Plus Philosophy, Education, Communication Studies, English, Marketing, and Anthropology

Statistics on Presentations

- By Focus of Paper on (n=211)
 - Social Sciences 82 (39%)
 - Humanities 37 (18%)
 - Management Sciences 14 (7%)
 - Unclassified/needs work 107 (51%)
- (Social Sciences = Econ., Soc., Psych., Pol.Sci., Law, Anthro.)
- (Humanities = History, English, Comm. Studies, Philos., Relig. Studies)
- (Management Sciences = NP Management, Marketing, Ed. Mgt.)
- (Unclassified = PHST NEC, Pub. Affairs NEC, Multiple, NEC)

Statistics on Presentations

- By School Affiliation of Inside Presenting Authors (n=117)
 - LFFSOP Core, COP Admin. 57 (49%)
 - IUPUI Other (includes affiliate and associate faculty in LFSSOP) 31 (26%)
 - SPEA IUB 13 (11%)
 - SPEA IUPUI 9 (8%)
 - IUB Other 7 (6%)
- By Inside/Outside Affiliation of Presenting Authors (n=210)
 - Inside 117 (56%)
 - Outside 93 (44%)

Statistics on Presentations

- By Subfield of Paper (n=198)
 - Individuals (Philanthropy) 103 (52%)
 - Organizations (Nonprofit) 95 (48%)
- By most presentations
 - 5: Rich Steinberg (not including today); Marty Sulek
 - 4: Renè Bekkers; Robert Katz; Jen Shang
 - 3: Melissa Brown; Julia Carboni; William Cleveland; Deb Mesch; Peter Weber; Mark Wilhelm.
- By most appearances as a coauthor (presenting or nonpresenting)
 - 275: Patrick Rooney.

Dennis R. Young
Richard Steinberg
Rosemarie Emanuele
Walter O. Simmons



Economics for Nonprofit Managers and Social Entrepreneurs



Thinking at the Margin

Thinking at the Margin

Amazon Best Sellers
Rank: #919,121 in
Books ([See Top 100 in](#)
[Books](#))

#463 in [Philanthropy &](#)
[Charity \(Books\)](#)

#10374 in [Business](#)
[Management \(Books\)](#)

#886 in [Nonprofit](#)
[Organizations &](#)
[Charities \(Books\)](#)

History

- 2nd Edition; The first was Young and Steinberg Economics for Nonprofit Managers, Foundation Center Press 1995.
- The decision to coauthor 1st edition: Incentives for Faculty to write textbooks.
- Problems with first edition
 - Done too quickly. Where I attempted to modify standard economics texts to apply to nonprofits, I made some mistakes
 - Coverage omitted important topics
- Decision to write a second edition

Product Differentiation

- No other textbook existed at the time of the first edition
- One other textbook exists now, coverage is very different
- Maximum Rethink of standard economics textbooks
 - Confront the fear, loathing, and misunderstanding of economics by people attracted to the field.
 - Vignettes in Chapter 1; Solutions in Final Chapter. Like these
 - A small nonprofit hospital wishes to provide home health care services. Should it do so on its own or in partnership with other hospitals?
 - A community health center has discretionary funds that it can use to educate residents about nutrition and exercise or it can expand its urgent care nursing staff. What course of action will best advance its mission to improve health in its community?

Product Differentiation

- A private college wishes to raise money to build a new wing on its library. Should it use direct mail fund-raising, personal solicitations, or some combination of both? How much money should the college invest in these fund-raising efforts?
- A private university must set its level of tuition as well as its student aid policy. How does it ensure that it will attract a robust, highly qualified and diverse entering class?
- An orchestra requires major repairs to its concert hall. Should it dip into its endowment to finance these repairs, or try to secure funds some other way?
- A nonprofit day-care center for children faces new competition from a local franchisee of a national for-profit chain. How should it respond in terms of its pricing, quality of services, and wage structure?

Product Differentiation

- A for-profit social business seeks to promote literacy by buying or receiving donated used books, selling some of them and distributing others free of charge to schools in low-income neighborhoods. How can it best decide how much to sell and how much to give away?
- Same tools, different applications and results
 - Basic tool: Constrained Optimization
 - Example: Setting price and quantity to maximize profits vs. to maximize mission
 - Profit max as the primary goal vs. a variety of distinct missions – “affordability,” promoting healthy behaviors, maximizing impact on social welfare, developing a taste for the higher arts, obtaining religious converts, changing government policies, Gray and Dark Side missions

Product Differentiation

- Same tools, same applications and results, different examples.
- Focus on managerial economics
 - Details left out in standard economics texts are included in standard managerial economics texts for for-profit managers.
 - We wanted to go further with more complete coverage of theory into practice
- Recognizing that most programs will offer only 1 econ course, bring in an introduction to things managers need to know taught in other courses

TOC Talk

- Chapter 1. Why Should Nonprofit Managers and Social Entrepreneurs Study Economics?
- Chapter 2. The Place of Nonprofits and Social Enterprise in the Economy
- Chapter 3. Policy and Management Issues
- Chapter 4. Analysis of Economic Functions
- Chapter 5. Thinking at the Margin
- Chapter 6. The Concept of Cost
- Chapter 7. Analysis of Competitive Markets
- Chapter 8. Market Power
- Chapter 9. Applications of Market Analysis

TOC Talk

- Chapter 10. Economic Decision Making Under Risk
- Chapter 11. Games of Collaboration and Competition
- Chapter 12. Behavioral Research in Economics
- Chapter 13. Market Failure
- Chapter 14. Cost-Benefit Analysis
- Chapter 15. Using Economics in Practice
- Methodological Appendix (Online: Calculus, Statistics, Econometrics, Experimental Methods)
- Musical Appendix

My contribution to the musical appendix

And one more, on the woes of social enterprise financial management. To the tune of *God Rest Ye Merry Gentlemen* (https://www.carols.org.uk/god_rest_ye_merry_gentlemen.htm). To be sung Acapulco (ahem) style.

**God rest ye merry gentlemen,
Let nothing you dismay.
Cause Santa doesn't sell his toys
He gives them all away.
He has no profit margin,
Long in business he'll not stay,
Cause his NEA grant has gone away
Gone away
And even elves need pay on Christmas Day.**

Challenges

- Technical Accuracy and Rigor
- How advanced to make it
- Too many coauthors
- Marketing: In the NACC undergraduate and graduate guidelines, but we don't have it here (except Patrick Rooney's version of Econ E514/PHST E540 in Executive MA program) and we are the center of the universe.

Program Evaluation Through Cost-benefit Analysis

Written, Produced, and Directed by Richard Steinberg

With a grant from the Society of Imagined Friends.

Version 1.0, March 2019

What is CBA?

- Ideally: A framework for assembling comprehensive data to *evaluate* the consequences of a project or program and to *choose* between competing programs
 - The theoretical foundation of ideal CBA is obtaining social efficiency or maximizing a Bergson-Samuelson social welfare function (BSSWF)
 - This foundation works well with public action for the public good but needs to be modified for private action for the public good. Many nonprofit and social enterprise missions are inconsistent with BSSWF maximization.
 - In practice time, cost, and data problems make CBA fall short of the ideal. There is an art to making reasonable practical compromises, but good CBA forces the practitioner to be explicit about these compromises and conduct some sensitivity analysis (how would the answer change if simplified differently?)

Highlights of First Pass: Accounting Framework

- List all intended effects and unintended side effects. All explicit and implicit costs, internal and external.
- If we don't care about distribution, order of operations doesn't matter.
 - Compute total B, total C, then $B - C$
 - Compute individual B, individual C, individual $B - C$, add across individuals
 - Compute PV before or after other steps.
- If we care about distribution, compute the PV of individual NSB before adding across individuals using a weighted sum.
- If we care in a fuzzier way about distribution, decide on "classes", compute NSB for each class, then do a weighted sum.

Highlights of Second Pass: Normative Foundations

- Any project will have winners and losers. How to compare these gains and losses across individuals?
 - Kaldor-Hicks Criterion: Essentially if the winners gain more in total than the losers lose, we like the program because the winners could share their gains with the losers in a way that makes everyone better off
 - ...
 - But if the gains are not shared, we have losers. Many are unpersuaded that we should use the potential to eliminate losses to judge a program if that potential is not used.
- How about weighted sums of individual gains and losses?

Adding up across individuals in CBA

- In a BSSWF, everyone counts, but may count different amounts towards the total valuation.
 - Based on interpersonal comparisons at different income or wealth levels: “Diminishing Marginal Utility of Wealth” is the assertion that a \$100 addition to the wealth of a poor person produces a bigger increase (at least on average) in that person’s well-being than the increase resulting from a \$100 addition to Bill Gates’ wealth.
 - Based on distributional justice notions: Whether or not diminishing marginal utility of wealth holds, some notion of distributional justice imposes that we have to count gains or losses to rich people as less important than the same size gains or losses to poor people.
 - Based on differences in family composition: \$100,000 produces a different amount of joy for single and married and for a family of 1 or of 27.

Adding up across individuals in CBA

- Based on other differences in life's fortunes. \$100,000 means something different for someone needing to spend \$80,000 on medicine and still experiencing lower health than it does for a healthy individual.
- We apply weights (numbers strictly between 0 and 1) based on these factors and calculate a weighted average of individual NSBs
 - Multiply each individual (or class) NSB by the weight for that individual (or class), then add the results
 - This produces a “weighted average” if the sum of the weights across individuals or classes equals 1.

Getting Surplus Measures for Nontraded Goods

- Three methodologies
 - Contingent Valuation: A fancy survey to elicit thoughtful answers on WTP
 - Hedonic Regressions: Sometimes what we want to value is something that is not traded separately but is traded implicitly as part of a package.
 - For example, when we buy a house, we are buying a package of housing attributes (square feet, number of bathrooms, etc.) and environmental attributes (how polluted is the air in the neighborhood? What is the local crime rate? How are the public schools?)
 - In hedonic regression, the price of the package (housing price) is the dependent variable and the attributes are independent variables. With the right kind of data, regression coefficients can be used to construct shadow demand functions for each attribute, from which one can compute surplus measures.
 - Travel Cost method: Value a local amenity by what people are willing to pay (and do pay) in traveling to see or use it.

Third Pass: Towards a CBA for nonprofits and other social enterprises

- The BSSWF (Combines Efficiency and Equity in one measure to assess the desirability of a change) is the foundation of CBA,
- Built into BSSWF are three reasonable, relatively noncontroversial, value judgments.
 - Consumer sovereignty. Respect an individual's willingness to pay as a monetization for social welfare. (Some controversy: preferences of drunks? Abusive parents? Young children? The Insane?)
 - Universality. Everyone affected by a policy counts in its evaluation. (Some controversy – include people outside the political jurisdiction of the decisionmaker?)
 - Pareto Dominance. If a program makes at least one person better off and nobody worse off, the program improves social welfare. (Some controversy – victimless crimes).
- These are reasonable for CBA applied to government policy, but not when applied to nonprofits taking private action for the public good

Third Pass: Towards a CBA for nonprofits and other social enterprises

- Consumer sovereignty. Organizational missions might require paternalism (parentalism) based on notions of sin, objectives to change preferences (addiction treatment; religious conversions; political preferences; a taste for the high arts; homosexual “treatment” programs)
- Universality: Organizational missions often focus on an in-group, either ignoring or becoming hostile to the effects on out-groups.
- Pareto-Dominance. (not sure it is well discussed in the reading).
- Notions of distributional justice appropriate for private pursuit of the public good may differ from those appropriate for governments
 - Elitist missions may place higher weight on the wealthy. (E.g., LFSOP doctoral admissions based on talent) Mission- or Need-based weights?
- How should government use of CBA be modified, if at all, to take account of private notions of the public good? Legitimacy, pluralism, etc.