

# CHAPTER 17

## THE PUBLIC PURPOSE SPHERE: GOVERNMENTS AND NONPROFITS

*Microeconomics in Context* (Goodwin, et al.), 2<sup>nd</sup> Edition

### Chapter Summary

Having looked in detail at the private sector in the previous chapter, the text now turns to the role of governments and nonprofit organizations in this chapter. For example, the coordination and regulation functions of government, without which markets could not function in the way they do is included. The chapter explores the ways in which organizations within the public purpose sphere address both short- and long-term aspects of people's needs. This chapter will be particularly important for those of you who are interested in public policy, international economics, business, finance, health, education, the nonprofit sector, and environmental studies.

### Objectives

After reading and reviewing this chapter, you should be able to:

1. Define the two primary functions of public purpose organizations.
2. Describe the three basic types of public purpose organizations.
3. Discuss the historical development of public purpose organizations regarding social welfare.
4. Discuss the historical development of public purpose organizations regarding the regulation of monopolies and trade practices.
5. Discuss the historical development of public purpose organizations regarding the regulation of financial markets.
6. Discuss the historical development of public purpose organizations regarding environmental protection.
7. Define the three major theories of organizational behavior: the theory of pure public service, the theory of "capture," and the theory of civic responsibility.

### Key Term Review

regulation

Progressive Era

means-tested programs

World Trade Organization

Pigovian taxes

public service (pure theory of)

civic responsibility (theory of)

open access resources

social insurance programs

Interstate Commerce Act

Securities Act of 1933

self-regulation

"capture" (theory of pure

special interest)

## Active Review Questions

### *Fill in the Blank*

1. The two main categories of economic functions carried out by public purpose organizations are \_\_\_\_\_ and direct provision.
2. Taxes that are designed to help internalize external costs are known as \_\_\_\_\_ taxes.
3. The notion that public purpose organizations are always taken over by powerful special interests is known as the theory of pure special-interest \_\_\_\_\_.
4. When the use of a good by one person does not reduce the amount of it that someone else can enjoy, it is called \_\_\_\_\_.
5. A resource that is diminishable, but from which no one can be prevented from benefiting, is called a(n) \_\_\_\_\_ resource.
6. The National Board of Medical Examiners in the US provides the exams that physicians take in order to become licensed. This Board is required by law to channel any financial surpluses back into the organization, because it is a \_\_\_\_\_ organization.
7. Labor unions, farmers' cooperatives, and social clubs are all examples of \_\_\_\_\_ - \_\_\_\_\_ nonprofit organizations.
8. The period in US history from the late 1800s to the early 1920s, during which many government social welfare programs began, is known as the \_\_\_\_\_ era.

### *True or False*

9. Sunlight is a diminishable open-access resource.
10. Only government organizations are involved in the regulation of economic activity.
11. Charitable foundations such the Ford, Rockefeller, and Gates Foundations are nonprofit organizations.
12. Nonprofit organizations often depend on fees and government funds for a significant portion of their revenues.
13. A labor union is an example of a “public benefit service and action” organization.
14. The period known as the Progressive Era in the US occurred primarily in the 1930s.

*Short Answer*

15. Suggest an example of a diminishable open access resource.

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16. Name the four main types of nonprofit organizations.

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17. Suggest three examples of public benefit service and action nonprofit organizations.

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18. Name an example of an international nongovernmental organization.

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19. In what year did labor standards, including limitations on child labor, begin to be regulated at the national level in the US? What was the name of the law that introduced these standards?

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20. Explain how a Pigovian tax can, at least theoretically, discourage activities that have negative externalities.

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**Self Test**

1. Which of the following is an example of direct provision by the public purpose sphere?
  - a. Advocacy for civil rights.
  - b. Setting standards for licensing physicians.
  - c. Health care provided by a nonprofit clinic.

- d. Funding for other nonprofits provided by a charitable foundation.
  - e. All of the above.
2. Which of the following is an example of a nonprofit organization?
- a. a labor union
  - b. The National Board of Medical Examiners
  - c. The American Medical Association
  - d. a church
  - e. All of the above
3. Which of the following is an example of a diminishable open access resource?
- a. sunlight
  - b. clean water in a lake
  - c. the eradication of an infectious disease
  - d. the social benefits of a high literacy rate
  - e. all of the above
4. Which of the following is *not* a public good?
- a. eradication of polio
  - b. a high literacy rate
  - c. infrastructure for provision of safe drinking water
  - d. national defense
  - e. an exclusive resort
5. Which of the following activities of the US federal government accounts for the most employment?
- a. welfare programs
  - b. tertiary education
  - c. primary and secondary education
  - d. national defense
  - e. transportation infrastructure
6. Which of the following could be an example of a domestic nonprofit organization?
- a. A local environmental protection organization
  - b. The United Nations
  - c. The International Monetary Fund
  - d. A state housing authority
  - e. The International Organization for Standardization
7. In what year were labor standards first regulated at the national level in US?

- a. 1800
  - b. 1838
  - c. 1919
  - d. 1920
  - e. 1938
8. The “Great Society” plan was a project of which decade?
- a. 1900-1910
  - b. The 1920s
  - c. The 1820s
  - d. The 1930s
  - e. The 1960s
9. Which of the following statements is true?
- a. Social insurance programs in the United States generally require a history of market work in order to qualify for benefits.
  - b. Means-tested programs generally require a history of market work in order to qualify for benefits.
  - c. Both social insurance programs and means-tested programs are meant only for people with low resources.
  - d. Means-tested programs are available to anyone who has worked for pay.
  - e. Both a and c are true.
10. The two general categories of purposes for which public purpose organizations work are
- a. regulation and monetary purposes
  - b. regulation and direct provision
  - c. resource management and regulation
  - d. charity and direct provision
  - e. resource management and advocacy
11. Both open-access resources and public goods are
- a. excludable
  - b. non excludable
  - c. diminishable
  - d. provided by governments only
  - e. provided by nature only
12. In 2000, what percentage of cash transfers at all levels of government went to the categories we generally think of as “welfare” (i.e. payments under the Transitional Assistance to Needy Families and general assistance programs)?

- a. 5%
- b. 10%
- c. 50%
- d. 83%
- e. 88%

13. Social security and unemployment compensation are both examples of

- a. public-private partnerships
- b. transitional assistance to needy families
- c. means-tested programs
- d. social insurance programs
- e. both a and c are true

14. The Interstate Commerce Act was the first federal law intended to

- a. Prevent monopoly.
- b. Set environmental standards.
- c. Regulate international trade.
- d. Govern the activities of states trading with one another.
- e. Facilitate discriminatory pricing.

15. The World Trade Organization (WTO)

- a. Can discipline member countries that do not abide by its rules.
- b. Has now been replaced by the GATT.
- c. Was established to enforce environmental standards internationally.
- d. Was established to develop and enforce labor standards at the international level.
- e. None of the above.

16. A small tax on currency trades, proposed as a means to discourage speculative trades, is known as a(n)

- a. Pigovian tax
- b. Tobin tax
- c. James tax
- d. Pigou tax
- e. Externalities tax

17. The theory of pure special interest capture holds that

- a. People are motivated primarily by altruism.
- b. Organizations generally pursue their stated goals.
- c. Organizations are most efficient when governed by private sector special interest groups.

- d. Special interest groups are the dominant force in American politics.
  - e. Any organization, regardless of its stated purpose, will eventually be taken over by special interest groups.
18. The view of public purpose organizational behavior in which people are seen as responding both to extrinsic and to intrinsic motivation and which assumes people have both altruistic and selfish motivations is known as the
- a. Theory of moral values
  - b. Theory of public service
  - c. Theory of civic responsibility
  - d. Theory of special interest capture
  - e. Theory of personal responsibility
19. Organizations with ‘501(c)(3)’ status
- a. Can receive tax-deductible donations.
  - b. Are for-profit organizations.
  - c. Are lobbying organizations.
  - d. Are set up to support political candidates.
  - e. Are always member-serving organizations.
20. Which of the following is *not* one of the main types of non-profit organizations?
- a. public benefit service and action
  - b. member-serving
  - c. religious
  - d. funding intermediaries
  - e. governmental

**Answers to Active Review Questions**

- 1. regulation
- 2. Pigovian
- 3. capture
- 4. non-diminishable
- 5. open access
- 6. nonprofit
- 7. member-serving
- 8. Progressive
- 9. False. Sunlight is not a diminishable resource, because the amount available does not decrease with increasing use.
- 10. False.
- 11. True.
- 12. True.
- 13. False.

14. False.
15. Examples provided in the text include fish stocks; water in a lake or river; and trees in natural forests.
16. Public benefit service and action; member serving; religious; and funding intermediaries.
17. Examples of this category of nonprofit institution include hospitals, educational institutions, and advocacy organizations, among others.
18. The textbook describes the example of International Organization for Standardization (ISO). You may be able to think of other specific organizations of this kind.
19. National regulation of labor standards began with the Fair Labor Standards Act of 1938.
20. Taxing activities that have negative externalities makes those activities more expensive to carry out, thus decreasing the incentives to engage in those activities.

### **Answers to Self Test Questions**

1. c
2. e
3. b
4. e
5. d
6. a
7. e
8. e
9. a
10. b
11. b
12. a
13. d
14. a
15. a
16. b
17. e
18. c
19. a
20. e