

Against the Third Sector as a Contrivance of the State; an Historical and Economic Analysis of  
Charity as Market Response to Market Need

Kevin A. Hodgkins

University of Alabama at Birmingham



## Abstract

In 1975, the Filer Commission produced a far reaching and detailed report on American philanthropy and charity. The brainchild of John D. Rockefeller III, the commission's report, *Giving in America*, introduced the concept of the Third or Independent Sector into mainstream discussion. The effect of this report was to rewrite ways in which charity and philanthropy were understood. This paper argues against the now common notion of non-profit charitable and philanthropic activity as a third sector, separate from voluntary market-based private enterprise and coercive government service provision. The paper shows that charitable activity has existed in the market since the beginning of recorded history, in response to human as well as market needs. Further, the paper exposes the problems of examining the charitable and philanthropic sector as a "Third Sector", separate from the laws of market economics, and from a macro, sector-centered-view instead of an individual-centered-view of the charitable entrepreneur, charitable donor, or social capitalist. Last, the paper exposes the current trend of charitable enterprise forsaking the traditional non-profit form in favor of different for-profit business forms, yet another example of the market centered nature of charity and philanthropy.



Against the Third Sector as a Contrivance of the State; an Historical and Economic Analysis of  
Charity as Market Response to Market Need

*Historical Foundations of Voluntary Assistance, Charity, and Philanthropy*

The historical foundations of modern philanthropic and charitable institutions trace their origins to the very beginning of recorded history. The very coalescing of humans into tribes, clans, nations, and societies is in part rooted in the reliance of human beings on others to advance beyond dismal subsistence and thrive. It is a biological imperative of the species to join together with others in order to survive. In order to advance beyond bare subsistence, it is equally imperative to engage in mutually beneficial transactions (trade) with others. In order for social units to maintain coherence, the majority of these transactions must be voluntary. Extending from ancient China, Egypt, Greece, Judea, Rome through the reign of the Roman Empire and Catholic influence over Europe, and onward to the rise of Britain and the United States; the history of voluntary assistance addressing social needs is extensive. The history is also universal; if not in application or in the organization of the assistance, certainly universal in its scope and ability to address the most basic social needs deemed worthy of support by their clan, tribe, or society.

Several themes are found through a study of voluntary private action addressing social needs across time and place. The key theme is that voluntary assistance for those in need is as consistent throughout history as private action for personal gain. The human race has proven it can meet the most basic individual needs in society through voluntary action. A second theme is the display of private initiative in meeting needs regardless of the strength or weakness of state

or organized religion in addressing them. Voluntary assistance has been robust regardless of the burdens placed on private action by state or religion. A third theme is the power of private action to provide voluntary assistance through new and innovative methods. The power of private action addressing new needs is also universal. A final theme found across time and place is the use of voluntary associational activity to act as a buffer against state and church hegemony.

Its existence as a subset of private action, voluntary assistance addressing social needs has a strong link to all other private action. The previously mentioned themes, uncovered through research and analysis, suggest that private voluntary assistance has much in common with private commercial activity. First, both subsets of private action inure some private gain to both parties in a transaction; the giver of voluntary assistance values the assistance given more than the value of any other good or service that can be produced or consumed, and certainly the receiver of assistance values the assistance more than not receiving it. Viewed through a different lens the giver is the consumer of the assistance provided by a producer of assistance. Either of these viewpoints allows for external benefits to inure to the “public good”, but the primary gain is between the parties completing the transaction. A second similarity is both subsets of private action require making use of entrepreneurial skill in acquiring and combining capital to produce goods or services valued by the market. If a social need is not valued by the market, it will not attract producers or consumers. This is in stark contrast to the coercive sector of the economy, which does not require mutually beneficial transactions, sets portions of the market outside of the influence of market forces, and directs investment and production to its own definitions of social needs. Historically, voluntary assistance has existed in the realm of private action, not the coercive sector of the economy.

Found among the enumerated general themes are contrasts in application of voluntary assistance. One of the clearest contrasts found in the evidence is determining who is worthy. The question of who is worthy of assistance has generally been answered in one of two ways. Many places and times have supported an entire class of people in need of assistance regardless of their abilities. A greater number of societies have broken down those in need into subgroups worthy of support; the infirm, orphans, or those only temporarily in need of assistance due to some exogenous shock such as drought or plague. A second contrast found throughout the historical evidence is determining what assistance is administered. This contrast is generally binary as well; voluntary assistance provided through direct aid of money or commodity or indirect assistance through services or opportunities for those in need.

Another way of dissecting the contrast between who deserves assistance and what assistance to administer is to view it through the lens of Christian charity. According to W.K. Jordan (1959) there have been three broadly held views on poverty in the Christian world. In the early period CE, poverty was idealized as beyond amelioration by society and almsgiving was taught as an intrinsic part of Christian life (p. 54). This view is philosophical Christian charity, a giver sharing vicariously with the recipient. A second view was held for a much longer period and was more complex. Poverty during this period was viewed as a social cancer to be treated by all means available, but not curable. During the period in which this view was primarily held, the church became the primary provider of assistance to the needy. The final view, still held today, differentiates between the unemployable and employable poor (p. 55). The roots of this view can be traced to the Protestant Reformation. A final contrast is determining who in society will carry out the organization of assistance to those in need. The literature shows that

throughout history, there has been a clear ebb and flow between the state, the church, and both private individual and organized action.

Voluntary private action is the mainspring of human progress; when not held back by artificial constraints, it is able to alleviate nearly any need. In the coercive sector of the economy, the state has often used alleviating social needs as sure proof that it is a proper ruler, especially when opposed to another powerful social group such as the church or strong voluntary action. In his book *The Mainspring of Human Progress*, Henry Weaver (1947) states that human progress began in three directions; through more efficient use of human energy, increased specialization, and advances in living conditions through voluntary exchange (p. 24). Voluntary exchanges are any exchanges made without coercion by any party. The historical evidence clearly shows that a consistent category of voluntary exchange is that of assistance to those in need. Certainly throughout history, the state and church have coerced exchanges of goods and services for both assistance to the needy and for pecuniary interests of those in power or their influencers. Regardless of the level of coercion by church and state to generate assistance to those in need, voluntary assistance has provided the majority of help to those in need. Lucretius posited that human societies were linked by *amicus* (friendship) before the emergence of the state (Hands, 1968, p. 37). A review of the traditions of voluntary assistance provides strong evidence of this assertion.

A final statement related to definitions of terms used within this paper is required. Historically, terms such as charitable, nonprofit, and philanthropic were not used. In modern parlance, the two terms are often used interchangeably. Non-profit, nonprofit, NPO, and not for profit organization are used interchangeably in this paper, and are used to denote any class of organization that is legally barred from distributing profits to owners of an organization;

generally any organization that can claim 501(c) status under IRS regulations. Voluntary assistance is used throughout to denote any type of private individual or organizational activity used to provide assistance of any kind for social needs. Charity is used throughout to denote any and all assistance provided generally for the poor or needy out of a sense of benevolence or love. Odd Langholm, in *The Legacy of Scholasticism in Economic Thought* (1998) defines charity as “the virtue by which we share our surpluses with those too poor to participate in the market.” A charitable organization is defined as an organization with its main purpose to provide charity to those in need. These organizations have been termed eleemosynary institutions in legal parlance. Eleemosynary is defined in *Webster’s Dictionary* as “of, related to, or supported by charity”, but its roots eleemon and eleos mean merciful and pity respectively. Philanthropy is used throughout to describe organized assistance usually provided by the rich to the public with a social, but not necessarily charitable goal in mind. As described by Friedman and McGarvie (2003), “philanthropists are givers, but givers are not philanthropists. The measure is their intent. Philanthropists impose their vision of good society through collective ventures.” (p. 2). The important distinction between charity and philanthropy is the psychological source of the assistance. Charity comes from dearness for others, from mercy, and from pity of other’s circumstances. Philanthropy has its literal roots in love for human beings, but in practice seeks goodwill for fellow man based on the beliefs of the giver.

*Ancient History of Voluntary Assistance.* The ancient history of assistance to the needy takes the reader through China, Egypt, India, Persia, Judea, Greece, and Rome. A particular focus is given to the history of Greece and Rome, primarily due to the availability of research materials. A survey of the systematic relief of the poor throughout time and place was undertaken by Jonathon Shutz-Duncan (1815). It begins with a general observation based on the

survey. “A seemingly permanent distinction of classes in society, of the rich and the poor, is recognized throughout all parts of the sacred historical writings, with the rich repeatedly exhorted to give alms to the poor” (p. 4). In or around 600 BCE, Chinese manuscripts describe calls for aid to the infirm aged, the wretched, widows, orphans, the blind, ignorant, and diseased. Confucius called for assistance through a “fixed habit of affection for the good of others” (p. 23). Chinese emperors were exhorted to show mercy through giving direct aid to the needy, and in so doing to provide an example to the people of charity. Further, “the example ... will influence his people, and insure their reverence and subjection” (p. 22). Confucius’s call was for voluntary assistance through private philanthropy, the emperor’s call was for charity. Both call for assistance to those in need, but the state’s response is to show example of their beneficence, while the private call is for a general habit of promoting human welfare.

Ancient Persia and India both provide examples of who in society are to be provided for. In Zoroaster’s Persia in 500 BCE references to assistance are frequent, but accompanied by qualifications. The duty was to feed the virtuous and pious in society, but certainly not the vicious and wicked. As stated in Zoroaster’s *Sad-der*, “to feed the hungry, with a pious motive, is an act of high merit, if goodness in others, and not sin, be thereby promoted” (p. 27). The priests of this time were to take a tithe of their own resources and “dispense to the poor the tributes paid to the priests by the rich” (p. 28). In India, giving to the poor is among the six prescribed acts of the first-born class in Hinduism. It is also written that to take food when needed does not taint a man with sin, but to take a gift when not needed will be held against a person after his present life (p. 31). Only the truly needy or the pious were to receive assistance. Those with the ability to support themselves, but didn’t were not worthy of assistance. Those

who did not follow the religious teachings were not worthy of assistance either. These types of qualifications will be seen again throughout the ages.

Ancient Judea has a rich history of charity and has influenced the traditions of other cultures including Ancient Persia, Egypt, and Greece. It has also profoundly influenced Christian charity. The Ten Commandments can be broken down into two dimensions; the first contemplating the spirit of God, and the second directing benevolent actions to relatives. At the end of every seven years, loans were forgiven so that as stated in Deuteronomy, “For there shall not be a poor man among you.” Agriculture was also suspended in the Sabbatical year and all the spontaneous product of the fields were to be left to the poor. The fiftieth year was called Jubilee and went even further than forgiving loans. In Jubilee, slaves were released to their prior properties, and property was returned to its original owners (pp. 17-20). A portion of each harvest was to be set aside for widows, orphans, and strangers – and gleanings from the fields were to be left for the poor (Faherty, 2006, p. 111). Later in Judaic history two alms boxes could be found on all synagogues, one for the poor of Jerusalem, and one for local charity (p. 111).

In ancient Greece, and Rome into the first two centuries CE, philanthropy and charity in our current sense was relatively unknown (Hands, 1968, p. 11). Charity comes more from an oriental concept of duty as seen in Judea, China, Persia, and India. This conception was inherited by Christian ethics as opposed to the more general beneficence of charity. Greek charity, when it can be said to exist is based less on the pity of misery described by the term *eleemosun*, and more on love of honor (p. 81). An important factor leading to this conception is the Stoic avoidance of fear and the enslaving power of fear; *eleemosun* (pity) was linked with fear in Stoic philosophy (p. 79). Benevolence in ancient Greece was much different than any conception we have of assistance to the poor today. In the classical city-state there was no form

of legal personality for organizations, so gift giving was often personal and not through any intermediary organization (p. 18). Greek history shows that there was more a focus on *koinooneteon*, sharing through community (Liu, 2008, p. 2). In times of drought, famine, pestilence or war the size of Greek city-states enabled a sharing with the whole community (p. 16). Although institutions for the needy such as hospitals, asylums, or orphanages did not exist, other such institutions; i.e. *gymnasia* and public baths did (Faherty, 2006, p. 110). Feasts were also commonly held and the community as a whole benefited from these acts. Many of the wealthy in Greece ended up giving their estates over to the state in order to create a lasting benefit. The state in ancient Greece was not based on the same conception as today. There was much more sense of community and “friendliness” between private and public aims (Hands, 1968, p. 24). Concepts of *Concordia* and *Homonoia* (concord and harmony) were a part of the construction of the Greek city-state (p. 24). It was expected that if a citizen had the ability to give, he would. This giving, without any other outlet, often went to the state to administer.

Aristotle claimed that where there is friendship, no justice is necessary, but the just are still in need of friendship. Aristotle defined friendship as an association of mutual advantage, to which each side contributes something. (p. 39). This conception of friendship was a basis for voluntary assistance in ancient Greece. The giver expected something in return. If giving to an equal, an equal gift was expected at some time in the future. When giving to the poor, a gift of honor was expected in return (p. 29). The return to wealthy benefactors in democratic Greece was often a position of honor, an honorarium. In a democracy, honor given was important to the wealthy because they relied on the continued support of the *demos*, who had the power to take away both what was given and what was earned (p. 35). Seneca declared that benevolent action gives pleasure and finds pleasure in giving. He continues that in serving others, one has served

himself (p. 45). So many of the acts of what today we might term charity were in ancient Greece gifts with an expected reciprocal return.

Gifts in ancient Greece rarely went to the permanent poor, but to those who had fallen on hard times due to acute causes (p. 89). The state itself was generally funded voluntarily, unlike today's nation-states. Epidoseis, or simple donations, were the most common way in which the state was funded, bequests of estates were the second most common (p. 39), followed by eisphora (general taxes on the wealthy) (Millet, 1993, p. 187). Strangers or foreigners were a certain subject of assistance in ancient Athens, as providing for them was required by law (Shutz-Duncan, 1815, p. 33). In all ancient Greek cities, including in Egypt during the time of Greek influence, the poor who were able to work but wouldn't were found unfit to live. The infirm poor were in no danger of starving though, or of being reduced to begging for sustenance as they were the beneficiaries of the more communitarian approach of the Greek city-states.

Ancient Roman traditions roughly mirror that of Greece as would be expected due to the philosophical heritage and patronage of Greeks in the expansion of Rome. As Rome moved toward and passed into the Common Era, innovations had begun in how voluntary assistance was organized and administered. During the reign of Augustus the right to bind wills was enacted (Hands, 1968, p. 19). Articles of association were granted by emperors granted the purpose of the association would be for support of the indigent and not for private gain or purposes of faction. These grants along with the right to bind wills led to an ability to grant bequests to organizations relatively assured that the bequest would be carried out as specified in the will (Shutz-Duncan, 1815, p. 67). Mutual benefit associations were also first seen during this period of Roman history (p. 67). In the third century CE, the Emperor Julian stated that "it is

disgraceful that no Jew has to beg and the Galileans support their poor and our own, that we Romans do not support our own poor (Liu, 2008, p. 17).

*Voluntary Assistance in the Common Era to Around 1500.* Roman, Greek, and Judaic traditions merged with the new Christian ethos to create the Christian conception of charity. The Christian conception of charity is one still carried today, with elements of both *eleemosun* and *philanthropos*. Christian charity has a basis in giving based on pity for the miserable, based on the example of Christ as conveyed by the Apostles. The early church was well organized and had an eye toward the general welfare of its members. With physical places where assistance was given and organized roles for providing assistance, the early Christian church could be said to be the first great philanthropic organization. There were six different roles in the church related to charity; deacon, sub-deacon, exorcists, gravediggers, and attendants to the sick (Uhlhorn, 1883, p. 113). The charity of the church was carried out through burial societies, as that was the only method under which Roman law allowed them to organize (p. 114). This type of organization was used over the course of several centuries until the church was officially established around 313 CE. After church establishment, the burial society's structure blended into the new church bureaucracy.

The Church became the primary recipient of charitable largesse over the 1000 year period from establishment through the 14<sup>th</sup> century as it consolidated power and grew to dominate all of Europe. In medieval Europe, monasteries provided most physical places of assistance such as hospitals, almshouses, and lazar-houses. Church parishes doled out alms to the poor and pitiless. It is known that roving mendicants, sometimes ranging into the thousands became prevalent during this period and roamed all of Europe (Shutz-Duncan, 1815, p. 150). During this period the only organized non-church voluntary assistance was provided by craft guilds, but this support

was limited to those members of the guild (Jordan W. , 1959, p. 56). A lack of ownership rights and the linkage between the church and feudal lords ensured that any person not linked to church, manor, or guild was sure to suffer in severe poverty.

The 14<sup>th</sup> century began to see decay in both the charitable activities of the church, and in the monastery system of the church that provided them (p. 58). Charitable trusts had been in use since the 13<sup>th</sup> century to support the Franciscan order, as the orders constitution forbade it from owning property. In the 14<sup>th</sup> century, private uses became more common as the church's charitable structure became fractured. These charitable trusts did not hold the force of law, so their use was limited (p. 109). The church actively discouraged charitable trusts that did not support the church at some level (Jones, 1969, p. 3). In England under Henry III, ecclesiastical courts were in charge of testamentary wills. If a testament was specified for non-pious reasons and there was any reason why it might not be carried out under law, the courts would change the bequest to a "pious cause"; one meant for the church (pp. 4-5).

With the continued degradation of the Church's ability to provide for charitable purposes amid constant war and strife, and charitable bequests being changed from their stated purpose to the purposes deigned appropriate by the ecclesiastical courts, English laity became increasingly disenchanted. This disenchantment led to Chancery Courts beginning to oversee the charitable legacies designed in wills, and the sole jurisdiction for the use or trust of endowments (p. 6). The inability of the church to support the poor, its increasing corruption, the advent of the printing press and subsequent access to knowledge, the translation of the Bible into vernacular, and many other factors led to the end of the Church's monopoly of religion and political power in the Protestant Reformation. Prior to the reformation, Christians considered it a duty to undertake the seven corporal works of mercy; feeding the poor, giving drink to the thirsty,

welcoming the stranger, clothing the naked, visiting the sick, visiting the prisoner, and burying the dead (Bloy, 2008). After the reformation, not only was religion to change, but the aims of voluntary assistance as well.

The Roman Catholic Church may have dominated charity in Europe, but certain areas maintained independence from the church. Other regions of the world also continued developing their own traditions of voluntary assistance. While Europe was battling through the beginnings of the Dark Ages, a new society was forming that had as one of its basic tenets providing assistance to those in need. The new Saracen (Islamic) society provided some of the greatest inventions and developments to which the entire world still owes debts. This culture founded great universities, teaching hospitals, funded science and technology, and cared for the indigent poor and infirm (Weaver, 1947, pp. 108-124). Followers of the Islamic faith are required to give two and one-half percent of the value of their property in voluntary assistance to those in need. The grandson of Mohammed is said to have divided his wealth three separate times between himself and the poor (Shutz-Duncan, 1815, p. 29). Ideas generated in the Arab world made their way into Europe through the trading ports of Italy and Spain and influenced methods and purposes of voluntary assistance during the decline of the Catholic Church.

*English Origins of Modern Voluntary Assistance.* The start of the Protestant Reformation led to the English Reformation in the 16<sup>th</sup> century. As continental Europe battled between the primacy of the Catholic Church and the beliefs of the new Protestant sects, England under Henry VIII executed a break with the Roman Church. The next two-hundred years saw amazing changes in methods and organization of voluntary assistance, especially when contrasting the continental experience with that of England. Germanic countries under the Holy Roman Empire had no real tradition of private voluntary assistance, and the problem of mendicity was severe.

Count Rumford, an Englishman who traveled through Europe wrote in his Essay on the Fundamental Principles of Charity that “it is evident that no body of laws can ever provide for the relief of the poor without the voluntary assistance of individuals” (p. 216). This observation was made after describing the problems of mendicity in Munich, even though large amounts of government assistance were provided to solve the issue.

The creation of the Anglican Church and the dissolution of monastic properties under Henry VIII ushered in a new era of secular giving by newly wealthy merchants in the middle of the 16<sup>th</sup> century. Englishmen began to reflect less on the fate of their souls and more on the needs of their fellow man (Jones, 1969; McCarthy, 2003). In 1480 there were but 12 schools for the poor in a sample of three counties from across England, by 1600 there were 140 (Jordan W. , 1961, p. 22). This fact shows the rapid increase in voluntary assistance unleashed after the Reformation. It also provides evidence that the increased assistance was not directed solely for religious uses. During the period from 1480 to 1540, over 50% of charitable and philanthropic gifts in England were to the church. By 1570, less than 10% of gifts were for religious purposes, and 40% of charitable gifts were directed to the poor (p. 368).

Jordan lists several reasons for the new focus on poverty and its causes in the 16<sup>th</sup> century. First was an increased sensitivity to suffering and want that accompanied new tenets of Protestant and Puritan faith and increased responsibility placed on the individual to ameliorate these needs. A second reason for the new focus was the expropriation of monastic holdings to the English crown, and its subsequent decrease in services provided by the church. Third was an increase in poverty as agriculture and farming practices changed. Landholders began to see their holdings as specie of capital and used it as such for planting and grazing, sectioning it off from other’s use. This change from an open-fields tradition forced many to leave the countryside for

cities and towns. A fourth was a population boom that accompanied the move into cities and towns (pp. 61-63). The entire charitable structure of the previous several centuries was built on ameliorating the needs of the rural poor. Even the statutes developed by the Crown in the late 16<sup>th</sup> century were focused on the needs of the rural poor (p. 67).

The drastic societal shift caused by the reformation, agricultural revolution, and demographic changes left a new class in society with many unmet needs. At the same time, the societal shift was ushering in a new era of prosperity in England. English merchants quickly became flush with wealth, and economic mobility became a reality for an ambitious and entrepreneurial class. It was toward needs of seasonal unemployment, cyclical periods of depression, epidemics, rising inflation, and the shift from an agrarian to a commercial society that voluntary assistance was applied (p. 74). Charity and philanthropy had a special concern with support for the unemployed seeking work that could not always be found (p. 89). In the late 16<sup>th</sup> century, merchants gave 60% of their charitable and philanthropic gifts to schemes for education and social rehabilitation; including job-training, apprenticeship loans, and workhouses (387).

The 1601 Elizabethan Statute of Charitable Uses specifically delineates the uses of charitable funds. In it is codified more than a list of charitable uses, but a general conception of philanthropy. The statute was one of several that together are often called the Elizabethan Poor Laws. Following is the preamble to the legislation

Whereas Landes Tenementes Rentes Annuities Profittes Hereditamentes, Goodes Chattels Money and Stockes of Money, have bene heretofore given limited appointed and assigned, as well by the Queenes most excellent Majestie and her moste noble Progenitors, as by sondrie other well disposed persons, some for Releife of aged

impotent and poore people, some for Maintenance of sicke and maymed Souldiers and Marriners, Schooles of Learninge, Free Schooles and Schollers in Universities, some for Repaire of Bridges Portes Havens Causwaies Churches Seabankes and Highwaies, some for Educacion and prefermente of Orphans, some for or towards Reliefe Stocke or Maintenance of Howses of Correccion, some for Mariages of poore Maides, some for Supportacion Ayde and Helpe of younge tradesmen Handicraftesmen and persons decayed, and others for reliefe or redemption of Prisoners or Captives, and for aide or ease of any poore Inhabitanes concerninge paymente of Fifteenes, setting out of Souldiers and other Taxes (*43 Elizabeth I c. 4*).

The act(s) formally codified the Common Law traditions of philanthropic and charitable bequests within a new framework, and brought a new focus on voluntary assistance. At the beginning of the 16<sup>th</sup> century, the majority of assistance was given in direct monetary aid (alms). At the time of the Poor Laws enactment, 80% of charitable bequests went into charitable and philanthropic endowments (Jordan W. , 1959, p. 118).

Private philanthropy was unleashed through the 16<sup>th</sup> and 17<sup>th</sup> centuries in England for many reasons. Metamorphosis of the medieval conception of alms led to greater amounts of philanthropic activity enabled by growing commercial wealth. Increased knowledge of both national and local needs and causes was enabled by the printing press and post. The emergence of the Protestant work ethic, commercial opportunity, and economic mobility in the 17<sup>th</sup> century led to the advent of a middle-class with the ability to give (McCarthy, 2003, p. 14). Increased exhortations by Puritan ministers in sermons, tracts, and funeral services called for increased service to those in need (Jordan W. , 1959, p. 180). As man's relationship to God was changed

to a much more direct and personal one, so did his relationship with recipients of his charity and philanthropy.

No longer having an intermediary to God or to those in need, private givers had to become more aware of the needs of those whom they wished to provide voluntary assistance. This change would lead to an explosion in philanthropy, and a major shift in what, how, and to what ends assistance would be provided. Education was one of the biggest gainers of philanthropic and charitable funds. The types of aid given to relieve poverty also underwent a dramatic shift. Charitable organizations became entrepreneurial in finding ways to address the needs of unemployment, economic mobility, and education. Savings banks, although attributable to Italian merchants as well (Shutz-Duncan, 1815, p. 77), were founded in several English cities in the 17<sup>th</sup> century. Charitable organizations were setup through pooled resources and subscriptions by middle-class English, inspired by the rise of the joint-stock company (McCarthy, 2003, p. 14).

The Elizabethan Poor Laws are often cited as proof that the government in England was primarily responsible for support of the poor. Although these laws laid the legal foundation for the state to levy taxes for poor-relief, it rarely levied them until the late 18<sup>th</sup> century. During the 17<sup>th</sup> century, no more than seven percent of support for the poor came from the state. When examining expenses for all charitable uses, the percent provided by the state was even lower (Jordan W. , 1959, p. 140). Other than during periods of plague or severe economic distress, the burden of providing charitable activity fell squarely on the shoulders of voluntary private assistance. As Jordan states, “the generosity of private men meant that (*government*) never had to intervene on a large scale” (p. 127).

*American Historical Foundations of Voluntary Assistance.* Early American voluntary assistance had a strong foundation upon which to build. English society of the 16<sup>th</sup> and 17<sup>th</sup> centuries embraced voluntary assistance, expanded its reach, and extended the methods by which voluntary assistance was provided. The earliest non-commercial permanent colonies in America carried with them the old world traditions of voluntary assistance. The Protestant Ethic was perhaps the most influential aspect of the old world traditions. John Winthrop (1630) delivered his famous communication, *A Model of Christian Charity* during his voyage to the New World. The beginning three paragraphs of the document follow.

CHRISTIAN CHARITIE.

*A Modell hereof.*

GOD ALMIGHTY in his most holy and wise providence, hath soe disposed of the condition of mankind, as in all times some must be rich, some poore, some high and eminent in power and dignitie; others mean and in submission.

*The Reason hereof.*

1 *Reas.* First to hold conformity with the rest of his world, being delighted to show forth the glory of his wisdom in the variety and difference of the creatures, and the glory of his power in ordering all these differences for the preservation and good of the whole; and the glory of his greatness, that as it is the glory of princes to have many officers, soe this great king will haue many stewards, Counting himself more honoured in dispensing his gifts to man by man, than if he did it by his owne immediate hands.

2 *Reas.* Secondly that he might haue the more occasion to manifest the work of his Spirit: first upon the wicked in [Page 34] moderating and restraining them: soe that the riche and mighty should not eate upp the poore nor the poore and dispised rise upp against and

shake off their yoke. 2ly In the regenerate, in exercising his graces in them, as in the grate ones, their love, mercy, gentleness, temperance &c., in the poor and inferior sorte, their faith, patience, obedience &c.

3 *Reas.* Thirdly, that every man might have need of others, and from hence they might be all knitt more nearly together in the Bonds of brotherly affection ... There are two rules whereby we are to walk one towards another: Justice and Mercy. These are always distinguished in their act and in their object, yet may they both concur in the same subject in each respect; as sometimes there may be an occasion of showing mercy to a rich man in some sudden danger or distresse, and alsoe doing of meere justice to a poor man in regard of some particular contract &c. There is likewise a double Lawe by which we are regulated in our conversation towards another; in both the former respects, the lawe of nature and the lawe of grace, or the morrall lawe or the lawe of the gospell, to omitt the rule of justice as not properly belonging to this purpose otherwise than it may fall into consideration in some particular cases. By the first of these lawes man as he was enabled soe withall is commanded to love his neighbour as himself. Upon this ground stands all the precepts of the morrall lawe, which concernes our dealings with men. To apply this to the works of mercy; this lawe requires two things. First that every man afford his help to another in every want or distresse. Secondly, that hee performe this out of the same affection which makes him carefull of his owne goods, according to that of our Savior, (Math.) *Whatsoever ye would that men should do to you.* This was practised by Abraham and Lot in entertaining the angells and the old man of Gibeon. The lawe of Grace or of the Gospell hath some difference from the former; as in these respects, First the lawe of nature was given to man in the estate of innocency; this of the Gospell in the

estate of regeneracy. 2ly, the former propounds one man to another, as the same flesh and image of God; this as a brother in Christ allsoe, and in the communion of the same Spirit, and soe teacheth to put a difference between christians and others. *Doe good to all, especially to the household of faith*; upon this ground the Israelites were to putt a difference betweene the brethren of such as were strangers though not of the Canaanites.

A Model of Christian Charity lays a solid foundation for voluntary assistance in America during the colonial period. The main tenets also tie back to themes seen throughout history. Winthrop discusses the inevitable separation of the rich and poor as being divined by the hands of God. Charity is commanded by God. Charity is useful in maintaining the balance of power between the rich and the poor. Man depends on other men in order to live. Certain groups in society are more worthy of assistance. An important line states that assistance is to be provided out of the same “affection which makes him careful of his own goods.” (Winthrop, 1630). The meaning is perceived as calling on people to utilize the same methods and vigor they use in private aims to provide assistance to those in need. These provide prime examples of the who, what, and how of voluntary assistance during the early colonial years.

In his popular nonfiction work *Uncharitable*, Dan Pallotta (2008) singles out the Puritan foundations of American philanthropy and charity as the single biggest cause of its failure in ameliorating social needs (pp. 2-3). Pallotta posits that the self-depredation inherent in Puritan moral beliefs helped to ensure that the means by which their private gains were built would not be used to provide voluntary assistance (p. 21). Voluntary assistance to the needy would be separate from voluntary transactions for private gain. The seeming contradiction between Winthrop’s words and Pallotta’s understanding of them seem to lie in another quote from *A Model of Christian Charity*. “But if our hearts shall turn away so that we will not obey, but shall

be seduced and worship ... our pleasures and profits, and serve them; ... we shall surely perish out of the land” (Pallotta, 2008, p. 19). So where Winthrop has called for Christians to provide assistance to the poor in the same manner as they care for their private gains, he also warns against turning to profits as an affront to God. The historical evidence shows that private gains were remarkable for some early settlers; amassed through entrepreneurial spirit, hard work, and sacrifice. Charitable gains during this period were sparse.

In breaking with the earliest American writings on charity like *A Model of Christian Charity*, later works on charity in the early American period did not extol the same religious virtue of giving as required by God; a requirement for those whose station in life was higher than others (Bremner, *American Philanthropy*, 1988, p. 10). Cotton Mather inserted some of the thoughts of Seneca related to charity; that beneficence provided returns in good feeling (p. 12). In *Bonifacious: An Essay Upon the Good*, Mather pushed for men of all means to perform good works. In his essay, he offered suggestions for associational activity, primarily inspired by English precedents (McCarthy, 2003, p. 15). Daniel Defoe, author of *Robinson Crusoe*, penned a pamphlet entitled *An Essay on Projects*. This pamphlet, like Mather’s *Bonifacious* offers a list of activities recommended for social betterment. Defoe’s work underlines the link between doing good and doing well (p. 15). Mather also suggests careful application of voluntary assistance; not to give it blindly, but responsibly (Bremner, *American Philanthropy*, 1988, p. 14). Works such as these began to change the view of charity as a duty handed down from God, to be performed as penance for inherent sin.

As America exited its first century of existence, another social movement was taking hold. The Great Awakening led to yet another change in the relationship between people and God. Jonathan Edwards, George Whitfield, and other preachers helped bring about a change in

how religion was practiced. This change led to an even more personal relationship with God than the change from Catholicism to Protestantism (p. 18). This change greater weakened the influence of organized religious groups while at the same time leading to a great increase in charity and philanthropy, especially related to secular concerns (p. 20). Jonathan Edwards drew on the ideas of John Locke to recast Calvinism in ways that stressed the moral agency of the individual, helping to bring about a greater individualism in voluntary assistance in the 18<sup>th</sup> century (Hall, *A Historical Overview of Philanthropy, Voluntary Associations, and Nonprofit Organizations in the United States, 1600-2000*, 2006, p. 34). Concurrent with the Great Awakening, the Enlightenment was beginning to influence society. Enlightenment era thinkers saw a general goodness and benevolence in humans. This perception helped lead to a general belief in self-government, individual responsibility, and free-market ideals (Friedman & McGarvie, 2003, p. 5). These ideals were revealed in all aspects of human endeavor, including assistance for social needs.

There was no clear demarcation of public and private domains in western society until 17<sup>th</sup> century England (Hall, 2000, p. 42) Although church and state remained unified through the 17<sup>th</sup> century, its waning influence at the beginning of the 18<sup>th</sup> century helped forge a new view of civil society. Along with this new view of civil society came new conceptions on how to address social needs. During this period in the colonies, government did not provide many services for the poor or otherwise needy. Certain government authorities might collect taxes and pay a private party to provide some services (Hall, *A Historical Overview of Philanthropy, Voluntary Associations, and Nonprofit Organizations in the United States, 1600-2000*, 2006, p. 34). Hall enumerates government as a primary beneficiary of charitable bequests during the 18<sup>th</sup> century (p. 34). Review of the examples supporting this claim show that they were often private

organization merely providing services similar to what is expected of governments today. It was often private organizations that funded building of roads, canals, and universities; exhibiting private action for public gain. Philadelphia did not found its first public poorhouse until 1732; the poor were tended by private charitable organizations (Wyllie, 1959, p. 205). During the early 18<sup>th</sup> century, general poverty was not noticeable in the colonies of America (Friedman & McGarvie, 2003, p. 34). There was plenty of work to do in forging a new nation. The cost of making the move to the colonies was not small, and outsiders in need were often not given assistance (p. 35). The lack of widespread poverty did not keep colonists from using voluntary assistance to create a better life for society.

Due to the important philosophical shifts of the late 17<sup>th</sup> and early 18<sup>th</sup> centuries, philanthropic activity began to blossom. Philanthropy took hold, attempting to usher in a world where charity was uncommon and perhaps even unnecessary as problems became seen as solvable (p. 34). Ben Franklin, thinking differently than preachers like Mather, perceived a world where charity would not be needed. Franklin states that “preventing poverty is a better exercise than relieving it” (Bremner, *American Philanthropy*, 1988, p. 17). In addressing social needs, Franklin was a great proponent of organized voluntary associations (p. 18). Franklin became familiar with the voluntary associational form during his time in London in the 1720’s (Friedman & McGarvie, 2003, p. 37). Soon after Franklin returned to Pennsylvania, the London Foundling Hospital was formed as a joint-stock company, with profits preferring to the ongoing support of the company instead of stock-holders (p. 37).

Franklin’s experiences while in London had great impact on his life. His experiences there helped lay the foundation for his Junto association of “Leather Aproned Men”. The Junto eventually became one of the first voluntary associations in America with broad philanthropic

aims (McCarthy, 2003, p. 16). The Junto also helped show that regular people could have an extraordinary impact on the needs of others. Franklin was a great marketer of civic needs. His view was unique in the vigor by which he proposed voluntary means to promote public ends. Franklin would promote and establish voluntary schemes including policing, organized volunteer fire service, post, street lighting, and street paving (Bremner, *American Philanthropy*, 1988, p. 17). Franklin's ideas on voluntary associations, charity, and philanthropy forged a highly visible model for combining charitable, government, and market activities for public ends (McCarthy, 2003, p. 14). This newly forged view of voluntary private means supporting communal ends was to become very important as the colonies faced the challenges of creating a new nation.

Purely private corporations were virtually unknown in the early stages of American history. Colonial authorities did not have the authority to grant corporate charters, and the Crown was reluctant in granting charters to American firms (Hall, *A Historical Overview of Philanthropy, Voluntary Associations, and Nonprofit Organizations in the United States, 1600-2000*, 2006, p. 33). Early corporations served primarily public purposes, including maintaining public order, providing poor relief, education, transportation building, and religious services (p. 34). A great number of voluntary associations began appearing in the middle of the 18<sup>th</sup> century. These associations provided charitable services, commercial services, and mutual benefit to members (p. 33). Some of these associations agitated for separation from British rule.

In practice, the Continental Congress can be viewed as a voluntary association! Taken further, the founding of the United States was brought about by the most significant philanthropic activity the world has ever experienced. As the Continental Congress had no real authority to levy taxes or compel conscription in its army, the early undertaking of the war was based on voluntary assistance. Rich merchants and bankers provided the majority of the

financial assistance required at the beginning of the Revolution. Influential individuals, such as Franklin, Jefferson, and Adams traveled Europe seeking funds from established governments and like-minded philanthropists. Many of the primary individual funders of the Revolution, great philanthropists, gave their entire fortunes to the cause of separation from British rule.

Founding father Benjamin Rush, though not a rich man, gave his philanthropic vision to the colonies during the Revolution and to the young Republic after 1787. Rush gave his entire life to philanthropic and charitable ends, particularly in the blossoming medical and scientific fields (Friedman & McGarvie, 2003, p. 20). Stephen Girard was another supporter of American independence from Britain. He was also a great philanthropist, but his life was devoted first to commerce. Both men hailed from Philadelphia, and both were certain proponents of philanthropic activity. The difference in application of their lives to addressing social needs is part of the continuing theme of how support is best given. Rush used his talents to work in charitable organizations, Girard used resources earned from commerce to fund philanthropic activities. Rush, as a preacher early in life, gave out of a feeling of religious mandate (p. 38). Girard seemed to give in order to receive honor (patronage) and friendship as witnessed in ancient Greece and Rome. Rush gave his time to general charity; assistance to the poor, medicine, and education. Girard gave wide-ranging gifts and was also instrumental in setting up some of the first savings-banks in America. He believed that fostering ability and economic self-interest would lift the needy from their condition (p. 39).

*Voluntary Associations, Charity, and Philanthropy in the Young Republic.* McCarthy (2003) defines four key roles of private charitable and philanthropic organizations in the young republic. They assumed the power to define social issues by creating institutions that shaped public perception. They fostered public-private partnerships with the new state and federal

governments. They promoted social issue advocacy and acted as a safety valve for competing political and social interests. Last, they provided critical economic functions; as consumer, producer, and employer (pp. 5-6). These institutions, formed to provide voluntary assistance to meet social needs helped foster free-market values as well as social causes.

At the founding of the new Republic, charitable organizations were often viewed as public institutions, and were often influenced by local government officials. Voluntary associations were seen as a potential locus of dissent and power accumulation. They also were seen as a challenge to democratic values (Hall, 2006, p. 35). The founders of the new Republic knew the power of voluntary associations all too well, and distrusted the corporate form for the same reasons. Charitable organizations at the time were almost strictly local in nature. Business enterprise at this time was almost entirely based on individual merchant activity, organized as sole-proprietorships or partnerships (Kerr & Blackford, 1986, pp. 4, 37). These merchants had shared commercial and communal motives since the classes' growth in the 16<sup>th</sup> century (p. 35). Joint-stock companies, originally formed in the 16<sup>th</sup> century were granted corporate status from the state, and almost always had attachments for providing for the public good as well as private gain in return for the charter (pp. 30,146). The first decades of the new Republic saw southern states stifle growth of private commercial and charitable organizations. During the period from 1776 to 1800, only 300 corporate charters were granted in the United States (Kerr & Blackford, 1986, p. 145). Powers of corporations were limited, and provisions of British Common Law were repealed (Hall, 2006, p. 36). The absence of a legal infrastructure to enforce charitable trusts or allow organization of corporations discouraged private initiatives for public good (p. 36). This became one of the first policy debates in the United States, with correspondence and rhetorical speech framing the issue.

Philanthropy in this period began to focus on activism and advocacy, not just funding of charitable activities (Bremner, *American Philanthropy*, 1988, p. 70). Charitable corporations in New England were being used to accumulate capital and shield economic elites from the democratic masses (Hall, 2006, p. 36). At the same time, voluntary associations were providing ways for regular people to accumulate monetary and social capital, influencing the government and elites. They enabled political and religious dissenters to counteract political elites that dominated the public sphere (p. 36). Charitable institutions presented means for white women and minorities to have economic influence, and to save for their own futures (McCarthy, 2003, p. 80). The institutions were also making profits and reinvesting those back into their organizations and causes (p. 21). In short, the various forms of what today are deemed nonprofit organizations were accumulating influence and power and expending them as well.

One of the most substantial and beneficial ways in which charitable organizations were influencing society in the new republic was through the accumulation of capital. Charities created capital through the sale of goods as well as through charitable bequests. In the 1820's, a large number of northern charities had significant pools of liquid capital, during a time of general economic downturn. They were able to bankroll turnpike companies, seed new businesses, and had a profound influence on commercial activity. Interlocking boards of directors enabled resources to be directed to special interests, quite often the businesses of the directors themselves (Hall, 2006, p. 38). The areas of the country with the strongest voluntary organizational activity were the areas where economic development took off (McCarthy, 2003, p. 78). As one example of the scope of capital accumulation, the Benevolent Empire societies raised over 2.8 million in a 15 year period from 1816-1830. During a 40 year period from 1787 to 1830, the federal government had spent little more than that amount on all internal improvements it had

undertaken (p. 81). The Lowell Mills resident chronicler stated that Hospital Life Insurance Company, affiliated with Massachusetts General Hospital was the most important provider of intermediate-term capital to the New England textile industry (p. 94).

The new ways in which nonprofit organizations were used to influence politics and accumulate capital began to produce controversy and court interventions. An 1815 Supreme Court case, *Terrett v Taylor*, the court ruled that Virginia could not take ownership of property belonging to the antecedent of the Anglican Church. The Episcopal Church, having been incorporated by Virginia statute in 1784, was protected from changes in popular opinion. In an 1817 case, *Trustees of Philadelphia Baptist Association vs. Hart's Executors*, the Supreme Court found a bequest to be invalid because it was not made to a corporation. These decisions displayed the power of the corporate form for charitable institutions, and all but required them to take the corporate form in order to be free from public interference (Friedman & McGarvie, 2003, p. 99).

The debate over whether corporations were subject to state rule and continued oversight came to a head in 1818 in a Supreme Court case; *Dartmouth College vs. Woodward*. In his concurring opinion finding for Dartmouth College, Justice Joseph Story stated; “the fact then that the charity is public, affords no proof that the corporation is also public” (Neem, 2003, p. 358). The court’s decision in Dartmouth clearly differentiated private and public organizations, regardless of the organizations aims. The Dartmouth case also laid the foundation for corporate personhood and independence from the state. Massachusetts Governor Elbridge Gerry commented that the proliferation of private charities would “do much good for the Commonwealth” (p. 361), as having only one organization provide anything often led to those organizations indulging their own private interests. In his majority opinion, Chief Justice

Marshall states that “eleemosynary institutions do not fill the place that would otherwise be occupied by government, but that which would otherwise remain vacant” (Friedman & McGarvie, 2003, p. 102).

The Dartmouth decision, which truly set the stage for private charity in the United States, also generated some blowback against them. Justice Marshall’s opinion weighed heavily on the Elizabethan Statute of Charitable Uses. Although it was now clear that bequests to charitable corporations were protected, many bequests had been made to non-corporate charities. An 1833 case, *Magill vs. Brown*, centered on the question of whether an unincorporated Quaker society could take real or personal property by bequest (Wyllie, 1959, p. 214). Although the court found that an unincorporated body could not accept property, a forceful and thoughtful dissent was submitted by Justice Baldwin. Baldwin demonstrated that charitable uses owed their legal standing not to the Statute of Charitable Uses, but to common law traditions (p. 215). Baldwin’s dissent in *Magill vs. Brown* effectively became the majority opinion in *Vidal vs. Girard’s Executors*. In 1831, Stephen Girard (whose previous philanthropy has been discussed) left a large sum in trust to be administered by the citizens and aldermen of Philadelphia. Girard’s relatives argued that the purposes of the trust were ambiguous and indefinite; arguing that a remainder trust should be setup accruing to their benefit. The court opinion in favor of Girard’s Executors found that the law should be stretched to cover new uses of bequests that promised public benefit (p. 217). This decision truly codified individual choice in deciding where and how charitable bequests would be setup (p. 219).

In antebellum 19<sup>th</sup> century United States, middle-class standards of thrift, sobriety, and responsibility reigned. There was no permanent aristocracy, as people entered and left the upper-class by their own abilities and prowess (Bremner, *American Philanthropy*, 1988, p. 41). A

broad commercial sector arose as entrepreneurs drove revolutions in agriculture, transportation, and manufacturing. With the growth of trade and commerce, many specialized firms arose in the business sector to take advantage of opportunities (Kerr & Blackford, 1986, p. 6). In 1792 a trading exchange was started in New York City that in 1817 became the New York Stock Exchange (p. 112). A great deal of capital for this commercial expansion was funded by philanthropic institutions. Voluntary bequests to charities helped feed commercial success, and commercial success led to greater amounts being bequeathed to charitable institutions. As people moved from one social class to another, they took with them differing views on charity and commerce. This mixing of ideas and ideals led to the advent of many new business types; both commercial and charitable. New commercial business types included wholesalers, jobbers, dealers, brokers, and private banking. New charitable business types included savings banks, mutual insurance companies, and national federated societies such as the Benevolent Empire Societies. In the 1820's, charity reformers pushed for growth of mutual insurance, savings banks, and mutual benefit societies as cures for poverty (Bremner, *American Philanthropy*, 1988, p. 57). For all the changes seen in antebellum business practices, the largest firm of the time had but 800 employees (p. 113). During this same period, some of the largest firms were charitable mutual savings banks and insurance companies. The largest of these each had over 100 million dollars saved (inflation adjusted) returning five percent to savers (McCarthy, 2003, p. 89).

The period from the Revolutionary War to the Civil War in the United States led to the definition and growth of unique systems of business, government, charity, and philanthropy. During this period, the state began to provide more social services. Many of these social services were provided only after substantial advocacy efforts by charitable institutions. In addition, philanthropic institutions acted as a test-bed for providing services, with government scaling up

the most successful methods. The same happened in reverse, as certain services provided by government came to be offered by private charitable organizations. Disestablishment of the church in Massachusetts and Connecticut was perhaps the largest transfer of power from state to private enterprise in history (Olds, 1994, p. 277). Although there were private churches in both states prior to disestablishment, they had a stature similar to private schools today. After disestablishment, an explosion of both choice and attendance occurred (p. 282). Private churches had acted as tests for private funding of religion. Their success in private funding helped ensure disestablishment proceeded (p. 296).

*Nineteenth Century Voluntary Associations, Charity, and Philanthropy during and after the Civil War.* Voluntary assistance during the Civil War and Reconstruction focused on aid to soldiers, veterans, their families, and others affected by the war (Bremner, 1980, p. 75). The two largest and most influential charitable organizations during this period were the Sanitary Commission and the Christian Commission. The Sanitary Commission was founded to improve sanitary conditions in Civil War camps and hospitals. It organized thousands of local agencies around the country and used its influence to affect changes in official policy (p. 76). The Sanitary Commission was one of the first charity organizations with a large paid staff, numbering over 450 employees (p. 58). Uncommon as it was for charitable organizations of the period to have paid staff, some public outrage resulted (p. 57). Some of this outrage was generated by the Christian Commission. Bremner termed this “Philanthropic Warfare” as the two large organizations battled for public support (p. 60). The two organizations had very different views on affecting social change. The Christian Commission, which primarily made use of volunteer staff, was imbued with a traditional view of voluntary assistance. The Sanitary

Commission, headed by Frederic Law Olmstead, proceeded to define efficiency and professionalization in charitable organizations (Hall, 2006, p. 42).

With the growth in size of charitable organizations in the Civil War period and afterwards, state run and volunteer audit boards were setup in several states to review operations of these firms (Bremner, 1980, p. 158). Much of post-war philanthropy had minimizing the burdens on government as a purpose (p. 182). Although government had been providing resources to private organizations to provide social services, the post-war era saw an increase and formalization of grants to private organizations (both charitable and commercial) addressing needs. Increases in grants are partly attributable to a growing view at the time that a constant funding source would help build a foundation for the “permanency and efficiency of a charity” (p. 184). Charitable organizations that received public subsidies though, received the least amount of private support (Warner, 1894, p. 414). With the increased size of organizations and an increase in operating expenses, it was opined that charitable organizations needed to become more efficient. Publicist of *The Nation*, E.L. Godkin, stated that “philanthropy needs in our day, in order to not be mischievous, to have a good deal of the hard and cold and incredulous counting house spirit infused into it, and needs, like commerce, to get the worth of its money” (Bremner, 1980, p. 184). The Charity Organization movement started in the 1870’s, and continued this push for efficiency and scientific method in providing charitable works (Kusmer, 1973).

At the turn of the century charities were certainly becoming more businesslike. They often had paid staff and utilized marketing, advertising, and professional fundraising to support their organizations (Warner, 1894, p. 380). In the commercial sector, the business firm had undergone significant changes in the post-bellum period. Stock-holding companies had been

legalized and vertical and horizontal integration was beginning to lead to the growth of giant trusts like U.S. Steel and Standard Oil. A significant amount of merger activity in the commercial sector was also occurring at this time (Kerr & Blackford, 1986, p. 177). Both commercial and charitable organizations were employing new methods of management including process management, corporate (home) offices, and partnerships (p. 186). A significant shift in this period was the separation of management and ownership, as firm sizes grew exponentially. Commercial and charitable institutions were undergoing simultaneous changes in organization, management, and size.

Cross-pollination between commercial and charitable enterprises had a certain impact on the philosophy of charity at the turn of the century. Self-made men (and women) carried their philosophy of individual responsibility and strong work-ethic onto charity boards. Josephine Shaw-Lowell, member of an influential and philanthropically minded New England family, provides a good commentary on the beliefs of late 19<sup>th</sup> century philanthropists in her *Public Relief and Private Charity* (1884). In this work, she lays out a guiding principle for providing voluntary assistance to those in need. Based on two rules; first that charitable action should be for permanent relief and second that it is best to help people help themselves, the principle states that charity must tend to develop the capacity of those it helps, without injuring others (p. 111). This philosophy, based on moral observations and mixed with the new business ethic in charitable organizations, helped lay the groundwork for another shift in providing voluntary assistance for social needs.

*Associations, Charity, and Philanthropy in the Twentieth Century.* The early years of the twentieth century saw an enormous proliferation of voluntary associations, charities, and philanthropies. This growth closely paralleled that of the national government from the 1870's

onward (Hall, 2000, p. 2). New types of philanthropic organizations such as the Community Chest and Community Foundation encouraged the middle class to give to charity in an efficient manner (Hall, 2006, p. 49). Philanthropic foundations were also blossoming after the turn of the century, flush with resources from large endowments bequeathed by America's industrial capitalists. Carnegie, Rockefeller, and Sage setup large foundations with philanthropic ends. These foundations utilized scientific methods and applied business expertise, representing a shift away from moral and religious traditions of addressing societies needs (p. 49). The 1920's saw an added push toward voluntary associational activity as Herbert Hoover promoted associations as a mechanism for civic betterment (p. 50).

Although the Carnegie, Sage, and Rockefeller foundations were all incorporated before the advent of the national income tax, it is without argument that tax changes have had a substantial impact on the growth of charitable and philanthropic institutions (Hall, 2000, p. 3). After the Great Depression and WWII there were approximately 80,000 charitable organizations in the United States (p. 3). With changes in tax law after WWII, many commercial organizations reorganized to nonprofit ownership forms; especially hospitals and education institutions (Hall, 2006, p. 53). With increases in government provided social programs, especially social insurance programs, member associations became less associational and more policy-centered in nature. Charitable service organizations were increasingly targeted to provide social services on behalf of the government. As a percentage of revenue, less and less of charitable organizations' income was being derived from private support, it was being replaced by government grants (Hall, 2000, p. 7). By the end of the 1960's, over 300,000 charitable organizations were in existence.

This trend continued through the 1960's, with the introduction of Great Society programs. Government and nonprofit growth was becoming inextricably linked. Changes in tax law and increased grants were beginning to help form a new sector in the economy, viewed as distinct from business and government. The Filer Commission report of 1973 cast voluntary associations, philanthropic foundations, and charitable organizations into a "sector" of "voluntary entities and activities" (p. 20). The report continued that this distinctive "third-sector" was vital to the future of democracy (Hall, 2006, p. 55). In the short course of 25 years after the end of WWII, the entire conception of voluntary charity and philanthropy had been changed from what these organizations did to how they were organized and functioned. The new sectoral approach focused on commonality of an organizational form defined in tax-law and regulations instead of a rich historical tradition of social entrepreneurship, success through adversity, and a constant support of social needs.

*Conclusion.* As shown, the history of private action addressing social needs provides evidence for enumerating several key themes. Voluntary assistance has been consistent throughout different places and periods. It is as consistent as private action for personal gain and is inextricably linked to commerce in its methods and growth. Voluntary assistance has proven innovative in addressing social needs, lending to and borrowing methods from both private commerce and government action. Voluntary assistance has provided for new social needs before government in nearly every occurrence. Finally, voluntary assistance has proven all of this throughout time and place even while being actively hampered in its methods and purposes by government interference.

Voluntary assistance is successful in addressing social needs in part due to the private nature of its methods. During periods of political hegemony private action is often restricted by

law or custom, causing needs to remain mostly unmet. Myanmar and Darfur provide recent examples of this phenomenon. When private action is allowed to seek its own ends, suffering and want decrease. The English experience of the 17<sup>th</sup> century provides some of the most powerful examples of this reality. The power of private action to address new social needs has been important to the process of societal development.

In the second half of the twentieth century, the independence of private charity and philanthropy hailed in the Filer Commission report has sadly been deteriorating. This trend poses a risk to the “private-ness” of voluntary action addressing social needs. As larger and greater percentages of funding for addressing these needs comes from government, the historical foundations of private charity and philanthropy are being overwritten. The potential consequences of this trend are an increase of suffering and want among the needy in society.

Organizations once defined by the purposes of their action are now defined by their legal form. The terms nonprofit sector and nonprofit organization are “neologisms created by lawyers, economists, and policy scientists in the years after WWII” (Hall, 2000). The classification is drawn in order to describe an organizational domain, defined primarily by tax law. A nonprofit organization is usually described as a formal, self governed organization, private in nature, that does not distribute profits to shareholders, and whose products and services provide some public benefit. Other than the profit-distribution constraint, many commercial organizations could fit in this definition as well. In practice though, common shareholders of many “for-profit” firms have but a nominal claim on a percentage of a commercial firm’s profits and capital and never receive profit distributions from them.

The depths to which nonprofits have become dependent on government support may very well be a logical consideration for defining them in a new and separate sector of the economy.

Historically though, there are but two sectors of the economy; voluntary and coercive. Government, and at times private religious and politically connected commercial organizations, has comprised a coercive sector of the economy. The history of charity and philanthropy has largely fallen outside of the coercive sector. It has more in common with private action for personal gain, as evidenced by one of the primary traditional reasons for providing assistance; self-regarding action. Even when the second traditional reason for giving is analyzed; providing assistance out of love or pity, that action is still private and inures a certain private benefit to the giver.

The number of charitable organizations has dramatically increased over the past 65 years, but the percentage of income given to charity remains unchanged at around two percent (Salamon, 2003, p. 20). Even through the Great Depression and WWII, giving averaged 1.87 percent (Marts, 1953, p. 4). In 1996 Americans gave 2.2 percent (Salamon, *America's Nonprofit Sector; A Primer*, 1999, p. 25). Jordan (1959) reports that from the years 1480 to 1660, British givers bequeathed seven percent of their estates to charitable or philanthropic organizations and trusts (pp. 376-377). Both Jordan and Shutz-Duncan state that ongoing contributions during this period far exceeded any revenues generated by poor-taxes. Unfortunately, prior to the 20<sup>th</sup> century statistics are not readily available for comparing giving to personal or national income. Several historical traditions and observations are available. The Muslim tradition of Zakat calls for giving 2.5 percent of wealth yearly. Christian and Judaic traditions of tithing also call for giving a percentage of wealth to charity. All statistics and indications point to a relatively constant rate of giving towards charitable and philanthropic activities, regardless of the percent of government support or intervention. Although the coercive public sector is overtaking much of the domain that has been provided by private voluntary assistance, history shows that private

assistance itself will not be crowded out. Voluntary assistance will be ready to address new needs; whether unleashed by war, massive societal shifts, ecological disaster, or economic Armageddon. Voluntary assistance will continue to imbue an entrepreneurial spirit in addressing existing social needs. Organizations supported by voluntary assistance will continue to act as a buffer against state hegemony. Private action addressing social needs predates the state. It will exist with increasing state interference and control and will outlive the state.

## References

- Bloy, M. (2008). *The 1601 Elizabethan Poor Law*. Retrieved April 1, 2008, from [www.victorianweb.org](http://www.victorianweb.org).
- Bremner, R. H. (1988). *American Philanthropy*. Chicago, IL: University of Illinois, Chicago Press.
- Bremner, R. H. (1980). *Public Good: Philanthropy and Welfare in the Civil War Era*. New York, NY: Knopf.
- Faherty, V. E. (2006). Social Welfare before the Elizabethan Poor Laws: The Early Christian Tradition, AD 33 to 313. *Journal of Sociology and Social Welfare* , 33 (2), 107-122.
- Friedman, L. J., & McGarvie, M. D. (2003). *Charity, Philanthropy, and Civility in American History*. Cambridge, UK: Cambridge University Press.
- Hall, P. D. (2006). A Historical Overview of Philanthropy, Voluntary Associations, and Nonprofit Organizations in the United States, 1600-2000. In W. W. Powell, *The Nonprofit Sector: A Research Handbook*. Yale University Press.
- Hall, P. D. (2000). *Philanthropy, The Welfare State, and the Transformation of American Public and Private Institutions, 1945-2000*. Hauser Center for Nonprofit Org. Cambridge, MA: SSRN.
- Hands, A. R. (1968). *Charities and Social Aid in Greece and Rome*. Ithaca: Cornell University Press.
- Jones, G. (1969). *History of the Law of Charity 1532-1827*. London: Cambridge University Press.
- Jordan, W. (1961). *Charities of Rural England 1480-1660*. Westport: Greenwood Press.
- Jordan, W. (1959). *Philanthropy in England; 1480-1660*. London: George Allen and Unwin Ltd.
- Kerr, K., & Blackford, M. (1986). *Business Enterprise in American History*. Boston: Houghton Mifflin and Company.
- Kusmer, K. L. (1973). The Functions of Organized Charity in the Progressive Era: Chicago as a Case Study. *The Journal of American History* , 60 (3), 657-678.
- Langholm, O. (1998). *The Legacy of Scholasticism in Economic Thought, Antecedents of Choice and Power*. Cambridge: Cambridge University Press.
- Liu, J. (2008). Exploring the Graeco-Roman Roots of Western Philanthropy. *ARNOVA Conference 2008* (pp. 1-18). Atlanta: ARNOVA.

- Marts, A. (1953). *Philanthropy's Role in Civilization; Its Contribution to Human Freedom*. New York: Harper and Brothers.
- McCarthy, K. D. (2003). *American Creed, Philanthropy and the rise of civil society 1700-1865*. Chicago: University of Chicago Press.
- Millet, P. (1993). Warfare, Economy, and Democracy. In J. Rich, & G. Shipley, *War and Society in the Greek World*. London: Routledge, Taylor, and Francis.
- Neem, J. N. (2003). Politics and the Origins of the Nonprofit Corporation in Massachusetts and New Hampshire, 1780-1820. *Nonprofit and Voluntary Sector Quarterly* (32), 344-365.
- Olds, K. (1994). Privatizing the Church: Disestablishment in Connecticut and Massachusetts. *The Journal of Political Economy*, 102 (2), 277-297.
- Pallotta, D. (2008). *Uncharitable, How Restraints on Nonprofits Undermine Their Potential*. Medford: Tufts University Press.
- Price-Jones, J. (1946). *The Yearbook of Philanthropy*. New York: Inter-River Press.
- Salamon, L. (1999). *America's Nonprofit Sector; A Primer*. The Foundation Center.
- Salamon, L. (2003). *The Resilient Sector; The State of Nonprofit America*. Washington D.C.: Brookings Institute Press.
- Schiff, J. (1990). *Charitable Giving and Government Policy*. New York: Greenwood Press.
- Shaw-Lowell, J. (1884). *Public Relief and Private Charity*. New York: G.P. Putnam's Sons.
- Shutz-Duncan, J. (1815). *Systematic Relief of the Poor at different periods, and in different countries with observations on charity, its proper objects and conduct, and its influence on the welfare of nations*. Bath: Richard Crutwell.
- Uhlhorn, G. (1883). *Christian Charity in the Ancient Church*. New York: Charles Scribner and Sons.
- Warner, A. (1894). *American Charities*. New York: Thomas Crowell and Company.
- Weaver, H. G. (1947). *The Mainspring of Human Progress*. Irvington on Hudson, NY: Foundation for Economic Education, Inc.
- Winthrop, J. (1630). *John Winthrop; A Modell of Christian Charity*. Retrieved February 25, 2009, from <http://history.hanover.edu/texts/winthmod.html>
- Wyllie, I. G. (1959). The Search for an American Law of Charity, 1776-1844. *The Mississippi Valley Historical Review*, 46 (2), 203-221.