Goverment Funding, the 501(h) Election, and Nonprofit Political Advocacy

A Thesis
submitted to the Faculty of the
Graduate School of Arts and Sciences
of Georgetown University
in partial fulfillment of the requirements for the
degree of
Master of Public Policy
in Georgetown Public Policy Institute

By

Brandon O. Soublet, B.A.

Washington, DC
March 23, 2010
This thesis aims to determine the effects of government funding on the probability of engaging in, and also the level of, nonprofit political advocacy. It evaluates a logistic regression to regress whether or not an organization engages in advocacy on government funding, the main independent variable of focus, as well as various controls for internal organizational structure and external organizational environment. It also evaluates a continuous model, regressing the same variables on the amount spent on advocacy. The primary contribution is that it stratifies these regressions by 501(h) elector status, producing four separate regression equations. I find that government funding has a positive effect on the probability of engaging in advocacy for non-electors, a negative effect on the level of advocacy for the same, but no effect on either probability or level for 501(h) electors. I then discuss the policy implications of the 501(h) election and other policy proposals regarding nonprofit advocacy.
I would like to thank all of those people who helped me directly and indirectly survive this harrowing ordeal known as a master’s thesis. I wish to thank Dr. Gary Bass for providing me with not only the inspiration, but also the data set to make this thesis happen. I thank my advisor, Andrew S. Wise for many things, but mostly for wading through my regressions. I thank Prof. Jean Mitchell for taking her own time and walking me through the process of choosing an appropriate model type for my thesis. I thank my mother, Diana Soublet, for subjecting herself to my early attempts at forming this into a readable document. Finally, I thank my father, Byron Soublet, and my friends Brent and Amy Rasberry for their support throughout the process.
# Table of Contents

Chapter 1. Introduction ............................................................................................................. 1
Chapter 2. Background and Tax Law ....................................................................................... 4
Chapter 3. Literature Review .................................................................................................. 7
Chapter 4. Theoretical Framework ......................................................................................... 14
Chapter 5. Data ...................................................................................................................... 15
   Table 1 – Descriptive Statistics ......................................................................................... 17
Chapter 6. Empirical Model ................................................................................................... 18
Chapter 7. Results .................................................................................................................. 28
   Table 2 – Regression Results ......................................................................................... 28
   Regression equations ...................................................................................................... 29
Chapter 8. Conclusion and Policy Implications ..................................................................... 36
References ............................................................................................................................ 41
Chapter 1. Introduction

Over the past three decades, the issue of nonprofit political advocacy has been a contentious one, drawing both sharp criticism and impassioned defense. Conservative opponents argue that organizations receiving an indirect subsidy from the government in the form of tax exemption should not be permitted to influence the government in any way. Progressive defenders of nonprofit advocacy point to various important social and environmental laws and regulations that owe their existence, at least in part, to the public policy involvement of charities. Indeed, under current Internal Revenue Service regulations, nonprofits are allowed to engage in political advocacy, though the extent is limited.

Surrounding this debate on the merits and appropriateness of nonprofit political advocacy is the common notion that the practice is widespread. There are two likely reasons for such a belief. The first is the tendency to conflate nonprofit tax-exempt charities – that is, those covered under Section 501(c)(3) of the Internal Revenue Code – with other types of “nonprofits” that exist mainly, and often solely, to conduct political advocacy. Such organizations, most commonly, those covered under Sections 501(c)(4) and 527 of the Internal Revenue Code, are not tax-exempt, and may engage in unlimited levels of political advocacy. The second plausible explanation is the news of a rare misguided or negligent charity that loses its tax-exempt status for exceeding
permissible advocacy levels. This most severe of punishments is quite uncommon (only 104 charities lost their tax exempt status in 2009 for any reason), but generally draws the ire of the media and of conservative opponents of advocacy by charities.

The actual statistics on nonprofits engaging in political activity tell an interesting story. The “Strengthening Nonprofit Advocacy Project” conducted by Bass, et al. (2007) found that although roughly three-quarters of nonprofits engaged in some form of political advocacy, most did so very infrequently. The survey also found that there is widespread confusion within the nonprofit sector on what advocacy activities are permitted. For example, 28% of nonprofit leaders surveyed did not know that their organizations could legally support or oppose federal legislation. This confusion is potentially attributable to the difference between permissible activities at the state and local versus federal levels, and the lack of effort on the part of nonprofit leaders to educate themselves is probably a result of a general air of animosity toward nonprofit advocacy. Other than this preliminary study, there has been little quantitative analysis of the subject of nonprofit political advocacy nationally. Various statewide studies have tried to pin down specific determinants with varied results.

The importance of nonprofit political advocacy is twofold. First, public charities engaging in political advocacy tend to represent those groups that have been excluded from the policy process in some way. Vulnerable groups like children and
the mentally ill are not equipped to meaningfully engage in the formation of policies that govern our country. As such, nonprofits play a critical role in representing the overlooked and forgotten. A second argument for nonprofit political advocacy is one of efficiency. In our political system, private interests across the spectrum have political goals of rent seeking and government protection from competition. These moneyed special interests are able to influence legislation and regulation in ways that average citizens cannot, gaining preferential treatment for their own causes. This treatment, however, comes at the cost of the American public, whose tax dollars are used to protect narrow private objectives. Nonprofits, representing the greater good, can serve as the interest groups of the public. They can use their unique position in the policy process to compete with narrow private lobbies for scarce public resources, leading to a more efficient and equitable use of government funds.

This thesis will examine the effect that government funding has on nonprofit organizations’ tendencies to try to influence public policy.
Chapter 2. Background and Tax Law

Before I begin to analyze the data on nonprofit political advocacy, it is important to establish some background concepts and definitions. Perhaps the most important aspect of the background for this topic is a discussion of IRS regulations regarding nonprofit advocacy. Rather than quote specific sections of the Internal Revenue Code that outline acceptable levels of advocacy, I will attempt to provide a broad overview of the legal and administrative guidelines set by the IRS.

There are two schemes used by the IRS to determine acceptable levels of nonprofit advocacy. The original requirement, as outlined in the Revenue Act of 1934, is that “no substantial part” of the activities of a 501(c)(3) could be used for political or policy activity. As one might expect, the vagueness of the statute led to various problems. It did not offer investigating agents or the nonprofits in question any guidance as to what a “substantial part” was. Was it to apply to organizational income spent on advocacy? Did it apply to staff or volunteer time spent on advocacy, regardless of the cost? Would an organization be in violation if it spent little or no money on advocacy, but most of its staff time on advocacy? The 1934 “no substantial part” framework left considerable discretion to the investigating agent, which raised questions of broad applicability. Since each investigating agent had to determine whether or not an organization had been substantially engaged in advocacy, uniformity
of enforcement across the broad population of nonprofits by numerous IRS agents was nearly impossible to attain. The sole penalty for violating this standard is revocation of the organization’s 501(c)(3) status, a blow that could cripple or force closure of an organization.

The second scheme for determining appropriate levels of advocacy and political involvement is much more concrete. The Tax Reform Act of 1976 aimed to bring an end to the confusion and ambiguity of the “no substantial part” framework. It created section 501(h) of the Internal Revenue Code, which provided for an “expenditure test” for nonprofits. Under this test, each organization was subject to a concrete limit on how much it could spend on lobbying each year. The limit is based on its total organizational expenditures, but cannot to exceed $1,000,000 in a year. Should an organization exceed the $1,000,000 limit, it must pay taxes on the excess. The formulae set forth in section 501(h) were much simpler for both organizations and agents to interpret, and violations were much easier to spot. 501(h) also specifically outlined what activities were counted as lobbying under the expenditure test, also easing the burden on organizations and agents to make distinctions between appropriate and inappropriate activities. It is important to note that the concrete expenditure limit of $1,000,000 per year was set in 1976 and has not been adjusted for inflation.
Each nonprofit can choose whether or not it wants to follow the concrete lobbying definitions in section 501(h). Organizations that wish to be judged under the expenditure test of section 501(h) must “elect” to do so by filing IRS Form 5768. These organizations are referred to as “electors” for the purpose of this thesis. Organizations that do not choose to file Form 5768 are judged under the “no substantial part” regime, and are referred to as “non-electors.” Despite the fact that section 501(h) makes the limits on lobbying and advocacy very clear for nonprofits, and makes investigating nonprofits much easier for the IRS, the percentage of electors is around 3% of all nonprofits in any given year.
Chapter 3. Literature Review

Stigler (1971) provides context for the economic efficiency argument in favor of increased nonprofit political advocacy. According to Stigler, government regulation is chiefly a product of private industry influence. The government has at its disposal a variety of tools that can be used to the benefit or detriment of private actors in an economic system. Stigler states that these private actors try to persuade government to use its power to protect them either directly, through price supports, direct subsidies, and import tariffs and quotas, or, more commonly, indirectly, through erecting barriers to market entry.

Although it offers a very cynical view of government, Stigler’s arguments suggest serious implications for the overall efficiency of the economic system even if only some elements of it are true. Those self-interested groups seek government protection or favors at the expense of society. For example, agricultural price supports benefit growers to the detriment of consumers who pay higher prices for goods. In the absence of groups with the public interest in mind to serve as a counterweight to these narrow private interests, the political process can be hijacked to benefit a few strong players in the system while disadvantaged the public at large. Consistent with Stigler’s thinking, the nonprofit sector can serve as that counterweight for the public
good, representing the interests of Americans at large in the policy process, and creating parity in influencing government decisions.

Becker (1983) expands Stigler’s model by stating that the game of political influence is a zero-sum one in that increased influence to protect one group’s interest of necessity decreases by equal measure the influence, and, subsequently, the welfare, of all of the other groups. This expansion is important when considering who holds power in the policy process. If nonprofits, which generally represent broader and less organized swaths of society, are excluded from the process, then private interests are left to compete with each other for influence, but always at the expense of the public as a whole. If, in fact, the policy process is a zero-sum game, then we should hope, from an efficiency standpoint, that the largest portion of the benefits go to society as a whole, insomuch that the losers in the process are not unduly burdened.

Bass, et al. (2007) provide a broad overview of nonprofit political advocacy nationwide. Their book gives a detailed history of the development and restrictions of advocacy among public charities. Although the context provided is very useful for framing the topic, the most important aspect of this work is the data collected, which Dr. Bass has graciously made available to me. It represents perhaps the first well-documented attempt at compiling meaningful data on 501(c)(3) advocacy through a representative nationwide sample, which I will discuss in a later section of this thesis.
An interesting aspect of this work is that it actually identifies what nonprofits see as the major barriers to advocacy. The authors find that the top three barriers to political advocacy among nonprofits are lack of resources, tax law, and lack of staff skills. Government funding was seen as the fourth largest barrier.

One of the most important factors in determining the presence and extent of political advocacy for 501(c)(3) organizations is the 501(h) election. Seldin (1994) and Colvin (1993) each offer separate recommendations to nonprofits regarding making the 501(h) election. In general, both conclude that making the election would be beneficial to the vast majority of nonprofits. Seldin concludes that nearly all nonprofits should make the election, except certain grassroots lobbying groups whose advocacy would be severely constrained under section 501(h)’s limit of 5% of total non-taxable expenditures. Colvin states that such organizations can still benefit from the 501(h) election, and that “the benefits of a 501(h) election will generally outweigh the disadvantages” of detailed reporting requirements. Oddly enough, those that have studied the determinants of nonprofit political advocacy empirically have failed to include controls for, or to test the effects of the 501(h) election, perhaps due to the fact that very few nonprofits make the election. One way I will contribute to the literature is to account for the differences between electors and non-electors, while building on the type of regression analysis already performed.
Salamon (2002) employs regression analysis to try to determine what factors have a significant effect on nonprofit political advocacy. He begins by outlining various theories about nonprofit advocacy, which he describes as “conflict theory,” “partnership theory,” “organization theory,” and “resource mobilization theory.” Salamon hypothesizes that under the first theory, government funding should have a negative impact on advocacy, as nonprofits that are reliant on government funding for any reason are reluctant to be seen as “biting the hand that feeds them” by trying to influence government. Under partnership theory, he argues, government funding would have a positive effect on nonprofit political advocacy, as organizations have a unique ability to influence public opinion, other levels and branches of government, and private actors that can make government’s job easier. The other two theories are ambiguous as to what the role of government funding would be (they focus more on organizational structure and mission than on funding sources), and are therefore less relevant to this discussion.

Salamon then goes on to use regression analysis to see which theory, if any, is supported by data on nonprofits. His sample, however, covers only nonprofits in sixteen areas nationwide and was collected in the early 1980s. Still, his findings can light a path onto future study on the subject. He finds that government funding had a significant and positive effect on the percentage of an organization’s budget that is
spent on advocacy. This may not be the best variable to analyze, as it is necessarily bounded by 25% if organizations in the sample wish to keep their 501(c)(3) status. Also, Salamon does not address whether or not he accounted for the extreme skewness of the data, as nonprofits as a whole spend only around 1% of their total revenue on advocacy. Finally, Salamon includes 501(c)(4) organizations in his study in addition to 501(c)(3) organizations. Including 501(c)(4) groups will automatically increase the level of advocacy found in the sample, as the sole purpose of such organizations is to lobby and engage in political advocacy. Conceivably, this could also overstate advocacy levels in that money given by a 501(c)(3) to 501(c)(4) could count as advocacy expenditures for both organizations, depending on how it is spent by the 501(c)(4).

Though his regression coefficients are likely biased and his sample is conceivably nonrepresentative, Salamon’s study adds an important benchmark for the empirical study of nonprofit political advocacy nationwide. Since his piece was published by the Center for Civil Society Studies, others have attempted to conduct similar analyses of the sector, though on smaller scales. Chaves, et al. (2004) study two different samples of nonprofits. They examine first a national sample of religious congregations, then a sample of nonprofits based in the Minneapolis-St. Paul area. They use a logistic model to predict the effect of government funding on whether or
not organizations engaged in advocacy, with specific relevant controls in each sample. In various specifications, they find that government funding has either a significant positive effect on advocacy, or an insignificant effect, lending credibility to the “partnership theory” that Salamon described.

Because the sample of charities studied is limited to one very small geographic region, it would be unwise to use the findings of Chaves, et al. (2004) to make inferences about nonprofits nationally. Additionally, they account for only the absence or presence of nonprofit political advocacy; the authors make no claims about the extent of advocacy. One could make the argument that government funding increases the likelihood of political activity (a claim that would be supported by the authors’ findings) but decreases its extent. One could also argue that the nonprofits of the Twin Cities region are not representative of nonprofits nationally, though the authors claim that there is no reason to think they are not.

Child and Grønbjerg (2007) estimated a similar model using a sample of Indiana nonprofits. They used a logistic model to determine the effects of government funding on whether or not an organization engages in advocacy, and then a multinomial logistic model to see what effect government funding has on the extent of advocacy. They found that government funding does not have a statistically significant effect on either the presence or extent of nonprofit political advocacy. Again, the
findings of this study should not be applied to the wider spectrum of nonprofits nationally, as the sample is only representative of Indiana. The authors suggest that they could be applied to nonprofits nationally because “Indiana is fairly middle of the road,” but any inference made nationally is probably a poor one. Additionally, the response rate for the study was quite low (below 30%), which raises questions of selection bias.

This thesis will contribute to the discussion of the topic of nonprofit political advocacy in two main ways. First, it will study a representative national sample of nonprofits. While the state-level and local data used by previous researchers can be useful to make narrow claims about the sector, they make it impossible to make inferences on advocacy nationally. Though the data used for this thesis are by no means perfect, they will allow me to make broader claims about the sector as a whole than previous studies. Second, this thesis will study not only the likelihood of engaging in advocacy, but also to what level nonprofits are political. In addition to examining a binary dependent variable model (whether or not an organization advocates) as in past studies, I will also estimate a continuous dependent variable model to examine which factors affect how much a nonprofit will advocate. It is possible that certain factors will increase the chances that an organization is politically active, but decrease the amount it spends on advocacy.
Chapter 4. Theoretical Framework

I propose that whether or not an organization engages in political advocacy can be summarized by the following equation:

\[ Pr(Advocacy) = f(G, C, \varepsilon). \]  
(1)

In this equation, \( Pr(Advocacy) \) is the probability of engaging in political advocacy, and is some function, \( f \), of \( G \), a set of variables describing the organization’s relationship to the government, \( C \), a set of variables describing the internal characteristics of the organization, and a stochastic error term, \( \varepsilon \). I propose that the level of advocacy can be described by the equation

\[ Level \ of \ advocacy = h(G, C, \upsilon), \]  
(2)

where the level of advocacy is some function, \( h \), of \( G \) and \( C \) as outlined previously, and a stochastic error term, \( \upsilon \).
Chapter 5. Data

The data used for this thesis are the same used by Bass, et al. (2007) for the Strengthening Nonprofit Advocacy Project (SNAP). They are based on Form 990 information (collected by the IRS in 1998 and compiled and checked by the National Center for Charitable Statistics, or NCCS) and data collected in a survey immediately afterward by the SNAP researchers. IRS Form 990, or the “Return of an Organization Exempt from Income Tax,” is required of most nonprofit organizations falling under section 501(c)(3) of the Internal Revenue Code with annual revenue in excess of $25,000. The most notable exception is the case of religious congregations, which are not required to file the Form 990. The IRS stores all information from the Form 990 for every organization in its Return Transactions File (RTF). Additionally, approximately 25,000 501(c)(3) organizations with revenue under $25,000 file a Form 990 in any given year. The IRS includes these organizations in the RTF, but enters 0 for all financial information fields. These organizations are referred to as “zero-filers” and are purged from the sample by NCCS.

NCCS checks for data-entry errors by manually reviewing the Form 990 of each organization. It excludes the zero-filers, as described previously, as well as what it calls “out-of-scope” organizations. Out-of-scope organizations are defined as “foreign organizations, organizations operating in US territories or overseas.”
organizations reporting incomplete geographic information, and certain governmental organizations (NCCS 2006). This process left 206,031 organizations, which Bass, et al. stratified into four groups: electors with advocacy expenditures, electors without advocacy expenditures, non-electors with advocacy expenditures, and non-electors without advocacy expenditures. The researches carefully crafted, over the course of months, a survey on various topics not covered by Form 990. They sent the surveys to 2,738 groups in the survey, intentionally oversampling those organizations with positive advocacy expenditures to ensure an adequate sample size. The response rate for the survey was 64%. The data used for this thesis come from both the survey and the NCCS cleanup of the IRS Form 990 returns.
Table 1 – Descriptive Statistics

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean/Count</th>
<th>Std. dev.</th>
<th>Min</th>
<th>Max</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advocacy expenditures</td>
<td>20438.24</td>
<td>108400.3</td>
<td>0</td>
<td>2910955</td>
</tr>
<tr>
<td>Organization is a 501(h) elector</td>
<td>780</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Percentage of income from government</td>
<td>22.3547</td>
<td>31.8176</td>
<td>0</td>
<td>100</td>
</tr>
<tr>
<td>Organization has an outside firm for government relations</td>
<td>307</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Non-advocacy expenditures</td>
<td>4055.839</td>
<td>19794.86</td>
<td>0</td>
<td>464645.4</td>
</tr>
<tr>
<td>Organization is in DC metro area</td>
<td>151</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Organization is a dues-paying member of other another organization</td>
<td>865</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Organization age</td>
<td>34.1312</td>
<td>28.7241</td>
<td>0</td>
<td>227</td>
</tr>
<tr>
<td>Organization size (full-time staff and volunteers)</td>
<td>999.9025</td>
<td>31444.38</td>
<td>0</td>
<td>1308000</td>
</tr>
<tr>
<td>Ratio of volunteers to full-time staff</td>
<td>13.64654</td>
<td>128.2404</td>
<td>0</td>
<td>4000</td>
</tr>
<tr>
<td>Organization lobbies</td>
<td>1232</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>
Chapter 6. Empirical Model

In order to determine the specific effects of each independent separately on the dependent variables, I employ two different multivariate regression analysis techniques. The first type of model I evaluate is a probit model, which is used for analysis when the dependent variable is binary. It is more efficient than an ordinary linear probability model, which suffers from heteroskedasticity and can obtain predicted values not bounded by 0 and 1. The second type of model I evaluate is a tobit model, a maximum likelihood estimation for a linear dependent variable with censored observations. In the data set used for this thesis, a large proportion of the dependent variables for the amount spent on advocacy are 0. Since the dependent variable data is highly skewed toward 0, the distribution is not normal, and therefore the ordinary least squares method would yield biased estimates. Rather than discarding observations, or using a truncated model (which would essentially discard observations), the tobit model accounts for the 0 values while still using all of the independent variable data for all observations.

My dependent variable for the probit estimations is whether or not an organization engages in advocacy, regardless of whether or not it spends any money on such activities. A large proportion of the sample indicated that they did engage in some political or policy activity, but did not spend any money on advocacy. This
disparity between activity and expenditures could be due to volunteer lobbying, which would constitute advocacy activity but not count as expenditure, a lack of understanding regarding what activities should be reported to the IRS as advocacy expenditures, or a variety of other factors.

Unlike the continuous measure of advocacy I will discuss below, this measure is largely subjective. Bass, et al. (2007) compiled responses to a variety of questions relating to advocacy into a single measure of whether or not an organization engaged in advocacy. For example, although many organizations responded that they did not engage in “lobbying,” they did respond that they met with public officials to discuss the organization’s views on policy issues. The researchers’ vigilance in aggregating responses to multiple questions gives us a fairly robust and reliable view of whether or not each organization advocates.

The continuous dependent variable I will examine, advocacy expenditure, is a measure of the total amount in dollars each organization spent on advocacy. This information comes from Form 990 and is the sum of the reported amount spent on grassroots lobbying, direct lobbying, and electoral expenditures. Note that electoral expenditures are not tax-exempt. To the extent that organizations are reporting honestly and wish to avoid an IRS audit, and that organizations understand the types of activities that must be counted in reporting advocacy expenditures, this variable should
provide a fairly accurate measure of the level of advocacy in an organization. Herein, however, lies one of the main limitations of this variable; if organizations are not aware of what activities are to be reported, or if they choose to obfuscate this information from the IRS, these data could be measured with error.

The main independent variable of focus is the percentage of an organization’s income that comes from government sources. This income could be from grants, contracts, or other government sources, whether state, local, or national. The data come from the SNAP survey. The survey tells respondents, after the main question, (“What are the sources of your organization’s annual income?”) that “rough estimates are perfectly fine,” introducing fear of measurement error in this variable (Bass, et al. 2007). This variable is meant to serve as a measure of the extent to which each organization is dependent on government revenue.

Wolch (1990) states that “as public funding becomes more central to organizational survival … groups may be essentially co-opted and become quiescent.” Organizations with higher levels of government funding should be less likely to engage in political advocacy, and less likely to spend large amounts of money vigorously pursuing a policy position. As such, the effect of an increase in percentage of funding from the government should result in a decrease in the likelihood and intensity of advocacy. This theory runs contrary to claims made by Chaves, et al. (2004) that
“nonprofit leaders whose organizations receive government funding have an objective incentive to increase their participation in the political process to protect or enhance their own funding streams or otherwise improve their working conditions,” and therefore should increase the probability of engaging in advocacy.

My stratifying variable is 501(h) elector status. As discussed earlier, organizations wishing to abide by the clearer, more concrete lobbying guidelines must “elect” to fall under section 501(h) of the Internal Revenue Code. This variable comes from IRS data filed by the organization; Form 5768. One of the main contributions of this thesis will be to explore differences in advocacy patterns between electors and non-electors. Such differences could have major policy implications. A common perception is that government funding reduces the probability and extent of advocacy because organizations are fearful of overstepping vague and subjective IRS boundaries and are reluctant to influence the body that provides the organization’s revenue. The 501(h) election makes these boundaries clear and obvious and sets uniform penalties for violations. Different effects of government funding on electors and non-electors could suggest that the 501(h) election has sufficiently eliminated the fear of advocacy by nonprofits, insulating them from actual or perceived negative impacts of government funding. Since there has not been substantial empirical research to date on
the differences between the advocacy patterns of electors and non-electors, one can only speculate as to how the groups might differ.

Two variables are included as measures of organizational size: non-advocacy expenditures in thousands of dollars, and staff size. Non-advocacy expenditure data comes from IRS Form 990, where all reporting nonprofits are required to disclose total expenditures for the year. In order to construct this variable, I subtracted the advocacy expenditure variable discussed earlier from the total expenditures reported by each organization on Form 990. This variable serves as a control for organizational size through revenue. Another variable, number of staff members, is also included as a measure of an organization’s size. This variable is constructed from the SNAP data responses to the question “How many full-time equivalent staff members does your organization employ?” and includes professional, clerical, and “other” staff, as well as volunteers. There are competing theories as to what effect size should have on advocacy.

As Salamon (2002) points out, some suggest that organizations are more active politically when they are first beginning and are small in staff and budget. These organizations are largely free from constraints placed on them by large government contracts and public and private grants, so they are freer to influence policy. As these groups grow in size and revenue, the pressure to compete for government and private
funding (funding which usually comes with limiting conditions of use) crowds out advocacy activity in the organization. Competing theories suggest that effective advocacy exhibits economies of scale; that is, that advocacy is easier and more effective the larger its scope (Heyes and Liston-Heyes 2005). This would suggest that as an organization grows, its advocacy activity should increase, as specialization and separation of tasks frees up resources to influence policy.

Smith and Lipsky (1993) suggest that “small nonprofits face great problems in affecting political institutions.” They state that “lobbying is a major activity of the larger, well-financed nonprofit organizations” and that certain nonprofits are “simply too small to become active in political matters” (Smith and Lipsky 1993). While larger nonprofits can help government by providing expertise and political pressure on legislators in ways that administrators and bureaucrats cannot, smaller nonprofits struggle to gain traction in the process. Under the model illustrated by Smith and Lipsky (1993), organizational size, both in terms of staff and revenue, should be positively associated with political advocacy.

The age variable is constructed from the SNAP survey. The authors calculate each organization’s age using its year of founding as reported on the survey. Previous research suggests that age should have a positive effect on the probability and extent of advocacy. Child and Grønbjerg (2007) suggest that older organizations (those founded
before the “Defund the Left” movements in the 1980s and 1990s) should be less afraid of the hostility toward nonprofit advocacy and more likely to engage in the policy process. Chaves, et al. (2004) suggest that nonprofits with “more organizational capacity” are more likely to be politically active. In assessing “organizational capacity,” they posit that age is one factor that would positively contribute to capacity, and, therefore, advocacy.

A control is included for whether or not an organization is a dues-paying member of another organization. Over the past three decades, there has been an increase in the number of associations of nonprofits. Smith and Lipsky (1993) attribute this rise, in large part, to the decline of the welfare state and devolution of social service provision from governments to nonprofits. They argue that “associations play critical roles in interpreting programs, keeping members informed about ongoing developments, and providing feedback about policy to public officials” (Smith and Lipsky 1993). In this case, organizations that are members of nonprofit associations should be better informed about political and policy issues and be more likely to engage in advocacy. Rather than needing to provide their own policy analysis in-house, these groups can take information provided by the “peak associations” of which they are members and lobby directly on these issues. Under such a model, being a
member of an association would have a positive effect on the probability and level of advocacy.

Smith and Lipsky (1993) also acknowledge, however, that such associations of nonprofits “offer only a constrained advocacy” because association members often have diverse competing or complementary views and goals in the policy process. As such, advocacy by nonprofit associations can take a shape that is less specific and directed than advocacy by individual organizations. One potential theory for a nonprofit joining a peak association is essentially to pay someone else to do the policy work. If organizations are simply paying dues to associations of nonprofits to participate in the policy process for them rather than participating themselves, the advocacy may be less effective to the specific goals of the organization. Organizations that see political advocacy as less important might join peak associations instead of engaging directly. In this case, the effect on the probability and level of advocacy would be negative.

These models also include a control for location. Common sense might suggest that those organizations that are closer to policymakers would be more likely to be engaged in the policy process. As such, I have included a binary indicator of whether the organization is located within the Washington DC Metro area. The data set includes information furnished by the IRS on the Census Metropolitan Statistical Area
of each organization. The organizations that were reported in MSA 8840 (Washington, DC-MD-VA MSA) were deemed, for the purpose of this thesis, as being located in the DC Metro area. This measure is admittedly imperfect, as many of the areas in the Census definition of DC metro are hardly desirable locations to locate a nonprofit interested in political advocacy. Additionally, many organizations that technically fall within the Baltimore, MD MSA would consider themselves to be in the DC metro area. Nevertheless, for the purpose of this thesis, this measure of location will suffice.

I include an indicator of whether the organization employs an outside lobbyist or firm to handle government relations. Although such a measure has been largely absent from previous research, I believe that it is valuable to include it in this thesis. I hypothesize that those organizations that have an outside firm or lobbyist on retainer will be more likely to engage in advocacy and are also likely to spend more money on advocacy. Nonprofits that are serious about making a difference in the policy process are likely to need professional guidance and expertise to accomplish their political goals. Individual nonprofits often lack the knowledge and contacts to maximize the effectiveness of their advocacy. Rather than expend limited resources unwisely, these organizations are likely to increase their strength by employing an outside professional firm or lobbyist. As such, this variable should have a positive effect on both the probability and level of advocacy.
The final variable included is the ratio of volunteers to paid staff members. This data comes from the SNAP survey. In order to create this variable, I divided the number of volunteers for each organization by the total number of full-time equivalent professional, clerical, and “other” staff members. For organizations reporting no paid staff members, the number of paid staff was set to 1, making the volunteer-professional ratio equal to the total number of volunteers. McCarthy and Zald (1973) state that a high volunteer-professional ratio (that is, many volunteers and few staff) should result in a lower level and probability of advocacy. They state that “specialization is especially necessary in modern America, were the legal requirements of functioning necessitate experienced technicians…to bring influence to bear.” In this model, volunteers would not have the specific expertise to be able to influence policy, resulting in less advocacy. If organizations are engaging in volunteer advocacy, then a higher volunteer-professional ratio should have a positive effect on the probability of advocacy but have no effect, or a negative effect, on the amount spent on advocacy.
## Chapter 7. Results

### Table 2 – Regression Results

<table>
<thead>
<tr>
<th>Variable</th>
<th>Model 1 (3)</th>
<th>Model 2 (5)</th>
<th>Model 3 (4)</th>
<th>Model 4 (6)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government income</td>
<td>0.008† (0.002)</td>
<td>0.001 (0.002)</td>
<td>-418.54** (157.80)</td>
<td>-286.78 (208.93)</td>
</tr>
<tr>
<td>Lobbyist</td>
<td>1.182† (0.206)</td>
<td>1.314† (0.276)</td>
<td>74132.02† (12985.24)</td>
<td>89938.03† (14299.83)</td>
</tr>
<tr>
<td>Non-advocacy expenditures</td>
<td>1.35x10⁻³ (1.22x10⁻⁵)</td>
<td>-1.16x10⁻⁶ (2.69x10⁻⁶)</td>
<td>4.47† (0.20)</td>
<td>1.64† (0.34)</td>
</tr>
<tr>
<td>Located in DC Metro</td>
<td>0.311 (0.252)</td>
<td>0.071 (0.184)</td>
<td>44109.28* (20375.59)</td>
<td>48394.23** (17213.52)</td>
</tr>
<tr>
<td>Member of other organization</td>
<td>-0.569† (0.091)</td>
<td>-0.430† (0.108)</td>
<td>-46464.47† (9923.18)</td>
<td>14610.82 (11203.97)</td>
</tr>
<tr>
<td>Age</td>
<td>0.003 (0.002)</td>
<td>0.002 (0.002)</td>
<td>27.80 (172.63)</td>
<td>163.78 (231.94)</td>
</tr>
<tr>
<td>Size</td>
<td>5.34x10⁻⁵ (1.19x10⁻⁴)</td>
<td>-1.15x10⁻⁶ (2.08x10⁻⁵)</td>
<td>-0.97 (1.23)</td>
<td>13.97 (8.30)</td>
</tr>
<tr>
<td>Volunteer-professional ratio</td>
<td>0.002 (0.001)</td>
<td>-1.09x10⁻⁵ (2.04x10⁻⁵)</td>
<td>-23848 (72.14)</td>
<td>-433.40 (263.21)</td>
</tr>
<tr>
<td>Constant</td>
<td>0.762† (0.215)</td>
<td>1.477† (0.181)</td>
<td>-22843.39 (18658.45)</td>
<td>-90488.24† (21739.78)</td>
</tr>
<tr>
<td>N</td>
<td>847</td>
<td>724</td>
<td>847</td>
<td>724</td>
</tr>
<tr>
<td>Uncensored observations</td>
<td>--</td>
<td>--</td>
<td>335</td>
<td>375</td>
</tr>
<tr>
<td>Wald chi-squared</td>
<td>110.31†</td>
<td>46.95†</td>
<td>436.56†</td>
<td>88.60†</td>
</tr>
<tr>
<td>McKelvey &amp; Zavoina’s R²</td>
<td>0.436</td>
<td>0.276</td>
<td>0.461</td>
<td>0.253</td>
</tr>
</tbody>
</table>

*p<0.05 **p<0.01 †<0.001
Regression equations

For non-electors:

\[
\text{Pr(advocacy)} = 0.762 + 0.008 \text{ (Government income)} + 1.182 \text{ (Lobbyist)} + \\
1.35 \times 10^{-5} \text{ (Non-advocacy expenditures)} + 0.311 \text{ (Located in DC metro)} - 0.569 \\
\text{(Member of other organization)} + 0.003 \text{ (Age)} + 5.34 \times 10^{-5} \text{ (Size)} + 0.002 \\
\text{(Volunteer-professional ratio)}
\]

(3)

Advocacy = -22842.39 - 418.54 \text{ (Government income)} + 74132.02 \text{ (Lobbyist)} + \\
4.47 \text{ (Non-advocacy expenditures)} + 44109.28 \text{ (Located in DC metro)} - \\
44648.47 \text{ (Member of other organization)} + 27.80 \text{ (Age)} - 0.97 \text{ (Size)} - 138.48 \\
\text{(Volunteer-professional ratio)}

(4)

For electors:

\[
\text{Pr(advocacy)} = 1.477 + 0.001 \text{ (Government income)} + 1.314 \text{ (Lobbyist)} - \\
1.16 \times 10^{-6} \text{ (Non-advocacy expenditures)} + 0.071 \text{ (Located in DC metro)} - 0.430 \\
\text{(Member of other organization)} + 0.002 \text{ (Age)} - 1.15 \times 10^{-6} \text{ (Size)} - 1.09 \times 10^{-5} \\
\text{(Volunteer-professional ratio)}
\]

(5)

Advocacy = -90488.24 - 286.78 \text{ (Government income)} + 89938.03 \text{ (Lobbyist)} + \\
1.64 \text{ (Non-advocacy expenditures)} + 48394.23 \text{ (Located in DC metro)} + \\
14610.82 \text{ (Member of other organization)} + 163.78 \text{ (Age)} + 13.97 \text{ (Size)} - \\
433.40 \text{ (Volunteer-professional ratio)}

(6)
The regressions for probability and level of advocacy were highly statistically significant (p<0.001) for both electors and non-electors. The only variable that was statistically significant in all four models was the measure of whether or not the organization had an outside firm or lobbyist on retainer for government relations. For non-electors, those with a lobbyist or outside firm were 3.26 times as like likely to engage in advocacy than those without, and spent $29320.22 more on advocacy. For electors, firms with a lobbyist were 3.72 times as likely to engage in advocacy as those without, and spent $46584.44 more.

The data show clearly that having an outside firm or lobbyist for government relations positively influences the level and probability of political advocacy. This finding makes sense, as contracting with an outside firm or lobbyist would indicate a greater willingness or necessity to engage policymakers. It could also be an indicator of more effective advocacy, as specialized government relations firms can better direct an organization’s efforts and funding. Individual nonprofits can have a hard time gaining influence in a policy process with so many players. Many well-to-do nonprofits with valid policy opinions to express can get lost in the sea of lobbyists, interest groups, federal regulations, legislative and administrative staff members, committees, and official organizations. Those serious about making an impact in the
policy arena would do well to have experts help them learn the system and the players, guide their resources and engagement, and have a greater impact in general.

My measure of coalition building was also statistically significant across three of four models. Non-electors spent $17659.08 less and were 43.4% less likely to engage in advocacy if they were dues-paying members of another organization. Electors that were dues-paying members of other organizations were 34.9% less likely to engage in advocacy than those that weren’t members of another organization but the difference in advocacy spending was not statistically significant. This finding is consistent with my prediction about organizations and membership in other groups. Among both electors and non-electors, organizations that paid dues to another group were less likely to engage in advocacy.

A possible explanation for this is that these groups join other groups, such as state and national associations of nonprofits, and rely on those groups to engage in advocacy rather than advocating themselves. If this were true, it could signal a negative trend for nonprofit advocacy. Whereas individual organizations could advocate for the specific needs of the constituencies they represent and serve, associations of nonprofits are more likely to generalize their lobbying and advocacy for the sector generally (Smith and Lipsky 1993, Balassiano and Chandler 2009).
Organizational location had an effect on advocacy expenditures for both electors and non-electors, but no statistically significant effect on the probability of engaging in advocacy. 501(h) electors located in the Washington, DC metro area spent $17445.82 more on advocacy than those outside the DC metro. Non-electors in the DC area also outspent their counterparts located elsewhere, spending $25066.07 more. This finding is consistent with my prediction that organizations closer to the seat of national government would engage in more advocacy than those farther away. Locating in the DC metro area would make it easier to engage policymakers at various levels, so an organization seeking to participate in the political process would do well to locate near the nation’s capitol. Despite this finding, there is no statistically significant relationship between location and the probability of engaging in advocacy.

One would assume that close proximity to the center of the policy process would positively affect both the level and probability of advocacy, but the results of the regression show no bearing on the latter. This variable, however, does introduce questions as to the true relationship between advocacy and location. Do organizations that would have otherwise been politically active locate in the DC metro area in order to be closer to policymakers? Or do organizations that happen to locate in DC become stronger advocates due to their proximity to the process? Unfortunately, there is no way to answer this question with the data used in this analysis. One potential area for
further study is to investigate those organizations in the DC metro area to see if they have other specific qualities that may have been missed by this analysis.

The control included for organizational budget was statistically significant in determining level of advocacy for electors and non-electors. For non-electors, each additional $1000 in non-advocacy expenditures is associated with a $1.77 increase in advocacy expenditures, and for electors, the associated increase falls to $0.85. Direct and individual interpretations of these coefficients, however, do not have many practical policy implications; the variable is included primarily as a control for size. It makes sense that as an organization spends more on all functions, it should spend more on advocacy, given that advocacy is one of those functions. The fact that electors spent half as much as non-electors shows that as organizational budgets rise for both groups, non-electors tend to spend substantially more than electors. Non-advocacy expenditures did not have a significant effect on the probability of engaging in advocacy for either group, refuting the claim made by Smith and Lipsky (1993) that larger organizations should be more likely to engage in advocacy. This result is consistent with previous regression analysis performed by Salamon (2002) and Chaves, et al. (2004).

My main variable of interest, level of government funding, is only statistically significant for non-electors. For each additional percentage point of a non-elector’s
revenue that comes from government, the likelihood that organization engages in advocacy increases 0.8%. The effect on the amount spent on advocacy, however, was the opposite. Each additional percentage point of revenue from the government decreased the amount spent by these organizations by $165.54. The level of government funding had no significant effect on those organizations choosing the 501(h) election. The differential effect of government funding on electors and non-electors has serious policy implications, which will be discussed in depth in the following section. That government funding has no significant effect on electors suggests that organizations choosing to make the 501(h) election have been sufficiently insulated from the positive or negative effects commonly attributed with government funding of nonprofits.

The remaining variables, age, staff size, and volunteer-professional ratio, were not significant across any of the models at or above the 95% level. These results are fairly consistent with previous empirical research on the topic of nonprofit political advocacy. Although competing theories dictate that organizational age should have some effect on advocacy, the findings of this thesis, as well as studies done by Salamon (2002), Chaves, et al. (2004), and Child and Grønbjerg (2007), show that age does not have a statistically significant impact on an organization’s political activity. The total number of staff and volunteers employed by each organization also had no
effect on the probability or level of advocacy. In their study, Chaves, et al. (2004) find the number of employees and volunteers to be significant, but Salamon (2002) does not. Finally, the ratio of volunteers to professionals is also insignificant, consistent with my predictions and with Salamon’s (2002) research.
Chapter 8. Conclusion and Policy Implications

The regression coefficients show a substantial and significant difference in the effects of government funding on advocacy between electors and non-electors. While non-electors spent less on advocacy as government funding increased, consistent with Wolch’s (1990) theory, there was no effect for electors. Although increased government funding had a positive effect on the probability of engaging in advocacy for non-electors, supporting claims made by Chaves, et al. (2004) that “receiving government funding clearly creates an incentive for nonprofit political activity,” it did not have a significant effect for electors. Of all variables studied in this thesis, government funding was the only one that had statistically significant effect in both probit and tobit analysis for non-electors but not for electors.

The results of this thesis have major policy implications for nonprofit political advocacy. I have illustrated that conventional theories about nonprofit advocacy are relevant for the vast majority of nonprofit organizations, that is, those not making the 501(h) election, but not for the small minority that do. It appears that the effect of the 501(h) election has been to sufficiently insulate nonprofits making the election from the effects, positive or negative, real or perceived, of engaging in advocacy. Scholars and nonprofit leaders who lament the low levels of advocacy (Eisenberg 2002, Bass, et al. 2007) might see these findings as a way to enhance the political activity of
nonprofits who perceive government funding as a barrier to entry into the policy process. In this view, increasing the number of nonprofits making the 501(h) election could be an effective way to remove the barriers and engage more nonprofits in policymaking. Those in favor of reining in the political power of nonprofits may see the relative freedom that the 501(h) election offers as evidence that more needs to be done to keep public charities out of politics.

A second important aspect of the 501(h) election is that the expenditure levels it outlines are not adjusted for inflation. According to the Inflation Calculator developed by the Bureau of Labor Statistics, the $1,000,000 limit mandated by the 1976 regulations would be $3,575,693.07 in 2010 dollars. With a Federal Reserve Board more intent on stimulating private lending than on targeting inflation, the falling value of the dollar will likely further erode the actual purchasing power of $1,000,000. Each year, as inflation increases, the 501(h) election expenditure limit shrinks in real value. Perhaps the reason so few charities choose to make the 501(h) election is that the limit serves as a slowly-tightening noose on how much nonprofits can spend on advocacy. If this is the case, a potential fix for the problem is simply to adjust the allowable expenditure for yearly inflation, rather than fixing it at an arbitrary, arcane figure.

Overall, I believe that the 501(h) election is a successful policy intervention that enhances nonprofit political advocacy. Whether or not they are real, there are
perceived barriers to nonprofits with respect to political advocacy. The SNAP survey showed that nearly half of all respondents (49.6%) did not know their organizations could lobby even though they received government funding (Bass, et al. 2004). SNAP focus groups showed wide sentiment that nonprofits that engage in advocacy would lose their government funding or face increased scrutiny from government agencies. Given these misconceptions, it should be made clear to nonprofits what is legal and what is prohibited. Irrespective of one’s preferences regarding nonprofit advocacy, few could argue against increased awareness of what activities are permitted. The 501(h) election offers such clarity of regulation. It sets concrete limits for advocacy expenditures, clearly delineates what constitutes advocacy, and is not used by the IRS to form an “advocacy hit list” as feared by many organizations (Birch 1999).

Of course, one might argue that a simpler way to delineate nonprofit advocacy rights is to eliminate them. Such a sentiment was surely behind the “Istook Amendments,” riders that Rep. Ernest Istook (R-OK) tried to attach to various bills during the First Session of the 104th Congress in 1995. The Istook Amendments sought to bar all political advocacy by nonprofits that received any federal grants, even with the organization’s privately-raised, non-grant funds. The argument made in favor of the Istook Amendments was that money is fungible, and that nonprofits that receive government funding would eventually end up shifting government grant money into
advocacy functions using accounting gimmicks. This reasoning is not accurate, however, as government funds are rarely, if ever, granted as general operating revenue for nonprofits, and expenditures of government grant accounts are closely monitored by the granting agency. Nonprofits certainly cannot openly use government funds to lobby and would have a hard time deceiving grant making agencies to do so covertly. Given the fallacious nature of the fungibility argument and the severe opposition in the past from the nonprofit community, complete prohibition of advocacy by federal grantees is neither logically appropriate nor politically palatable.

In general, separate analysis of electors and non-electors is an area for further research. This thesis cannot cover the entirety of the determinants of political advocacy. Given the substantial variation across the nonprofit sector, as well as variation from year-to-year in the levels of advocacy, it would be beneficial to run the same analysis on different samples of nonprofits and on nonprofits over time. Berry and Arons (2003) have conducted separate analyses of electors and non-electors, but mainly focus on contact initiated by government. While this analysis is interesting, I find studying the activity of nonprofits to try to influence governments to be of greater importance.

It should also be noted that this thesis only accounted for location in terms of proximity to our nation’s capitol. Although considerable policymaking and advocacy

39
go on in Washington every day, nonprofits are also politically active on the state and local levels. To study the effect of proximity to policy processes outside of Washington would shed light on advocacy in various levels of government. Overall, I believe the framework I have developed here provides a solid stepping stone to furthering understanding of the relationship between government funding and nonprofit advocacy.
References


