The Dark Side of the Nonprofit Sector:

Polarization in Contemporary Society

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June 2021

Chapter 20 in Michael Hoelscher, Regina List, Alexander Ruser, and Stefan Toepler (eds.)

Civil Society: Concepts, Challenges, Contexts, Springer, forthcoming

Abstract

The nonprofit sector is viewed as charitable. The American experience shows that this is partly true, but for the most part its activities are in-group oriented. I argue that the nonprofit sector, which arises in response to market and government failures, is active in fields that require stakeholders (consumers or their sponsors) to make voluntary donations and participate in organization governance. These are more forthcoming in groups whose members share common bonds of ethnic, religious, and other dimensions of identity. To sustain these bonds, nonprofits engage in activities that strengthen identities, in-group orientation and sometimes enmity towards out-group members.

I sketch out stages in the evolution of in-group orientation by nonprofits, stylized after the American experience. (1) *Splintering (pluralism*), whereby diverse local groups provide for their members nonprofit cultural, religious, educational and other services, (2) *Fragmentation (coalescing)*, whereby local nonprofits with *similar service* missions affiliated with *similar identity* groups form regional or national associations. (3) *Polarization*, whereby nonprofits and associations in *different services* with *related identity* orientations align themselves along broader goals and worldviews, creating camps and resulting in polarization among them. The bright sides of the nonprofit sector are accompanied in the contemporary environment, by its exacerbation of polarization.

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1. Introduction

Contemporary American society is polarized (Pew Research Center 2019). Many people adhere to opposite views on politics, abortion rights, the possession and use of firearms, the value of scientific evidence, and more. There is intolerance toward other views and antipathy toward those who hold them. There is a strong tendency for views on different issues to align and coalesce into worldviews that are frequently defined not only on their own terms but in opposition to other worldviews (Baldassarri and Gelman 2008; Jost 2017). Polarization is undesirable because it generates conflict, endangers cooperation necessary for effective political decision-making, and has overall a negative affective impact on society (McCoy et al. 2018). In this essay, I argue that the nonprofit sector is a significant contributor to polarization.[1]

The nonprofit sector arises from insufficient or inadequate provision by for-profit firms and government of public goods, goods and services that require large fixed costs, or goods and services about which buyers have limited information. Alternative provision of such goods and services requires voluntary contributions by consumers with large demand and oversight of the organizations to ensure appropriate provision (Weisbrod 1974; Hansmann 1980; Ben-Ner 1986). The inadequacy of for-profit and government provision is particularly consequential in communities with significant cultural, economic, ethnic, political and religious diversity, with diverse groups having demand for different variants of education, culture and other goods and services (James 1993). Groups that share important identities deal more effectively with incentives for free-riding because members of the same cultural, religious, ethnic or other group tend to care about each other and to be susceptible to peer pressure, and thus be more likely to make voluntary contributions of money and time, thus enabling supply of goods and services of interest. Hence

1 The nonprofit sector refers to organizations that are not constituted for the purpose of making profit for distribution to owners. This includes all organizations that are referred to in the US tax code as "tax exempt," which includes charitable organizations, associations, churches and religious organizations, political organizations and private foundations. In this short essay, I do not make distinctions among these various types of organization.

diversity enhances both demand for nonprofit provision and the voluntary provision of resources necessary for the supply of nonprofit services (Ben-Ner and Van Hoomissen 1991.

The continued existence of nonprofit organizations in diverse societies requires reinforcement of the support for them through continued loyalty to the groups with which consumers are affiliated. In circumstances such as those of a society growing rapidly through immigration of diverse groups, nonprofit organizations self-provided members of these groups services and a sense of identity and belonging in the splintered communities in which they lived; that is the bright side of the nonprofit sector that de Tocqueville (1862) praised.[2] In contemporary society, with changed identities and complex and shifting economic, communications, and technological environments, actions that reinforce bonds and identity may bring together disparate identities and lead to opposition to others with different identities, and contribute to social polarizations; this may represent the dark side of the nonprofit sector.[3]

In the next section, I provide empirical evidence that those who donate to nonprofit organizations and those who benefit from them belong to the same identity groups, in line with evolutionary and social identity theories' prediction that altruism is predominantly in-group oriented. Next, I identify conditions that yield demand specifically for nonprofit organizations, arguing that it arises in diverse localities. Nonprofit organizations require voluntary contributions of time and money, which are vulnerable to free-riding. Free-riding is curbed when people share a common identity that induces mutual concern and trust, enabling the operation of nonprofit organizations. The main thesis of this essay is that nonprofit organizations arise under conditions of splintered diverse immigrant communities, and later reproduce in-group attitudes and allegiances that sustain them. Over time, local organizations ally with other organizations that provide similar services to similar groups and create regional and national alliances that pursue economies of scale in service provision and enhancement of common identities; I term this stage "fragmentation" of society among large alliances (coalescing) to distinguish from the previous stage of "splintering" (pluralism) of small groups at the local level. As identities and services change over time, the

[2] In the century between 1750 and 1850, the US population grew from about 1.2 million people to 23.2 million, mostly through immigration.

[3] There have many accounts of undesirable acts committed by nonprofit organizations and managers of these organizations. Corruption as well as organizations with undesirable goals have been referred to specifically as the dark side of the nonprofit sector by Smith, Eng and Albertson (2016). Chambers and Kopstein (2001) analyze nonprofit associations that pursue illiberal, anti-democratic and racist goals. The present essay does not address such issues.

common denominators of alliances broaden beyond specific services and specific identities and coalesce along broader distinctions that are loosely connected into worldviews that become overarching identities. This is the stage of polarization, with many nonprofit organizations that pursue varied missions aligning along the lines determined by the broad worldviews.

This essay addresses a large number of ideas and phenomena that have been examined in diverse research literatures, but the connections made here that argue that the nonprofit sector has an important dark side have not been previously made, theoretically or empirically. The argument is offered as a conjecture that requires more detailed investigations, on both the theoretical and empirical fronts. More broadly, this essay calls for a critical reexamination of the place and role of the nonprofit sector and civil society and its role in society (Anheier et al. 2020).

2. Empirical observations

There are few contemporary societies that are homogenous in terms of culture, religion, language, class, ethnicity and other important identity dimensions. In such societies, government tends to the needs not satisfied by the for-profit sector (James, 1989). To understand the role of the nonprofit sector in dealing with the challenge of a diverse society, it is necessary to examine the diverse backgrounds of those who participate in various activities, who provides time and money for its operations, and who benefits from them. The empirical literature that bears on these issues is remarkably limited; I consider some of it in this section.

Figure 20.1 illustrates the familiar big philanthropic-giving picture in the US. The first, and so far, the only in-depth examination of where donations go and who the beneficiaries of nonprofit activities are was presented in *Who Benefits from the Nonprofit Sector?* (Clotfelter 1992). The book's chapters examined whether the beneficiaries of nonprofit organizations in various industries, including healthcare and education, are poor or otherwise. They revealed an unexpected finding: nonprofit organizations do not operate primarily for the benefit of the poor. The authors of the book's chapters show that charity is not the central activity of the nonprofit sector in the six principal areas in which it operates: health, education, religion, social services, arts and culture, and foundations. Nonprofit organizations provide more healthcare to the poor than do for-profit firms, but the difference is insignificant. In secondary and post-secondary education, nonprofit organizations provide less charitable services than do public institutions. About 30% of nonprofit religious congregational expenditure is philanthropic, but it is still not clear how much went to the poor. In social services (where nonprofit organizations are dominant), only 27% of organizations report that over half of their clientele are poor. About 53% of the organizations have only few or no poor clients. Regarding arts and culture, there is no evidence that there is much support for consumption by low-income individuals. More recent analyses reveal a similar picture.

<< Figure 20.1 about here >>

In 2014, donations to charitable organizations (501(c)(3) in the US tax code) totaled $355.38 billion, 72% of which came from individuals. As shown in Figure 20.1, the largest proportion, nearly a third, was given to religion, $114.90 billion, followed by education, human services, and gifts to foundations (faith-based organizations offering healthcare, education, social services, as well as those working internationally are included in the respective categories rather than religion). The classification does not identify separately giving to charity in the dictionary sense of the word: giving to those in need. This picture has remained stable over time.

A 2007 study by The Center for Philanthropy at Indiana University (conducted on behalf of Google) attempted to uncover how much individual charitable giving is aimed at activities that benefit directly and primarily the poor. The study focuses on US Internal Revenue Service (IRS) income tax exempt individual giving, using several linked data sources. The study estimates total individual giving in 2005 at $252.55 billion, of which 30.6% of giving is "focused on needs of the poor," whereas the rest (69.4%) is "non-poor giving." Giving to poor is distributed across several activities, including healthcare, education and meeting of basic needs.[4]

The study also examined giving by donor income. Figure 20.2 shows the distribution of giving by these four income groups to different areas of activity (industries). Religion is the most important target of giving for all but the wealthiest households, and particularly for the lowest earning group, which represents the huge majority of households. Figure 20.2 illustrates the fact that the great majority of donors direct most of their donations to religion, followed by activities

4 There have been other studies attempting to disentangle who gives to whom, but none with as much detail as the IUPUI study. For example, Havens, O'Herlihy and Schervish (2006) attempt to identify donors and recipients and ask the questions the present paper asks. "Charitable giving is often thought to be a way of redistributing wealth, but if it is true that most giving is local and supports causes that the donor or the donor's family and friends identify with, or benefit from, what effect does the ongoing geographic segregation of the US both ethnically and socioeconomically have on both the idea and reality of philanthropy as a great equalizer?" However, they do not directly answer the question on the basis of data, these being unavailable.

concerned with the needs of the poor. Specifically, the first bar in Figure 20.2 implies that 64% of the total amount donated by 90.4% of households that make donations goes to religiously affiliated organizations. The second bar, which representing 7.4% of households, indicates that 55% of donations go to religious organizations. The very well-to-do (2.1% of all households) give 23% to religion whereas the 0.2% of households that made in 2004 more than $1 million gave 20% to religion.

<< Figure 20.2 about here >>

Giving to religious purposes is largely in-group giving act, such that members of religion X give to organizations affiliated with religion X.[5] Generally, religious giving means not only giving to organizations affiliated with the donor's own religious denomination but to a wider set of related identities that overlap. In the US, religious congregations are, for the most part, segregated by race and ethnicity, and socio-economic status. For example, 43% of American churches are completely racially homogenous (Dougherty 2003, Figure 1). They are less welcoming of people from a different background than that of their members (Wright et al. 2015). This suggests that the reference groups for many individuals represent overlap of religious belief, ethno-racial identity, and social class. The in-group identification of such important identity categories makes for a strong distinction between in-group and out-group members.

The data examined in this section exclude giving to family members, close and distant, and to advocacy and political organizations. Such giving is in-group giving almost in its entirety and exceeds (most likely by much) the giving analyzed above. In sum, people give up voluntarily a substantial proportion of their personal financial resources as well as of their time,[6] most of it to benefit individuals and organizations that may be identified as in-group on some identity

5 Bekkers and Wiepking (2011) find in their literature review that religiosity explains giving to religious purposes but does not predict giving to secular purposes consistently across studies. Choi and Dinitto (2012) conclude that religious identification is positively associated with religious giving but not with secular giving. Brown and Ferris (2007) find that religiosity increases giving to religious organizations but decreases giving to secular causes. They find that after controlling for many demographic variables and for measures of social capital, religiosity has a highly significant positive effect on religious giving and a smaller and a highly significant negative effect on secular giving. Mersch et al. (2014) find that more religiously inclined individuals give significantly more to religiously-oriented organizations but not to secular organizations. List (2011) comments that "religious gifts may be motivated by something different than motivations underlying gifts to other charitable organizations."

6 The Independent Sector estimates that 77.4 million volunteers contributed 6.9 billion hours valued at $187.7 billion in the US in 2019 (https://independentsector.org/news-post/new-value-of-volunteer-time-2019/).

dimensions.

To understand altruistic giving, economists and other behavioral and social scientists rely on an experimental procedure called the "dictator game" (Fehr and Fischbacher 2003). The first use of this procedure may be attributed to Henri Tajfel and colleagues (e.g., Tajfel and Turner, 1979), who conducted "minimal group" experiments that explored in-group vs. out-group giving with assignment of subjects to arbitrarily define (rather than natural or organic) groups. In a dictator game, subjects in the role of "senders" or "dictators" are given an endowment, for example, $10, which they can share with another person, the "recipient." The overwhelming conclusion of minimal-group experiments is that most people give more to in-group than to out-group.

Several experimental studies have investigated some aspects of the relationship between donor and recipient, from arbitrary to actual identities (e.g., political party orientation, Kranton et al. 2020; neediness and race, Fong and Luttmer, 2011). The findings are qualitatively the same as in Tajfel's experiments: subjects give more to in-group than to out-group (Chen and Li, 2009).[7][8] A comprehensive exploration of the "who gives to whom" question using the dictator game as well as surveys of willingness to work with others and socialize with others is in Ben-Ner et al. (2009).They found that subjects prefer members of their in-group over members of out-group in several categories: family, political views, sports-team loyalty, religion, musical preferences, TV viewing habits, food preferences, and more. Similar results were obtained in many other experiments (see, for example, Kumar et al. 2021).

3. Why are people more generous towards others with similar identities?

The empirical evidence suggests that most people direct much of their giving to in-group members. This section offers a very brief explanation for this finding grounded in evolutionary and social identity theories.[9] Genes drive the individuals who carry them to act in particular ways (traits) that promote their successful reproduction. Traits that reflect greater care for individuals with similar

7 Eckel and Grossman (2004) explored giving by religious donors and found that the greater generosity of religious individuals compared to nonreligious individuals is confined to churches and church-based institutions and does not extend to secular charities. In this experiment, religious subjects are found to give more to religious institutions than do nonreligious subjects, but the two groups give similar amounts to nonreligious institutions.
8 Experiments by social psychologists that did not use money allocations but observed behavior instead find similar in-group/out-group attitudes arise quickly and ferociously in minimal groups (e.g., Sherif 1961).
9 For detailed discussion of these issues, see Singer (2011 [1981]), Ellemers, Spears and Doosje (2002), Ben-Ner et al. (2009), Ben-Ner and Hu (2018), Sapolsky (2019) and Shaw and Wong (2020).

genes will be selected during the process of human evolution over traits that lead to behavior that is indifferent to other individuals' gene reproduction.[10] This mechanism would generate two related traits. The first and most obvious is *selfishness*. Generating and safeguarding resources enhances the reproductive capacity of an individual directly through health and longevity, which allow the individual to have more offspring. But this is not the only way to maximize the reproductive capacity of one's genes. An individual could also share some resources with close relatives who may have a better chance of reproducing the genes that they all share in common. This is the second trait, *kin altruism*.[11]

The category of genetically related people is, of course, larger than immediate kin. We can think of them as belonging to a series of expanding rings around an individual, with diminishing genetic commonality. In the first ring is immediate family, followed by extended family, followed by people increasingly more distantly related to the individual (Singer 2011 [1981]). When individuals who are in the first ring are already well resourced, members of more distant rings will receive donations.

Who are these more distant kin? Biologically speaking, the answer is obvious. In practice, the answer was obvious when people lived in small groups, but as societies grew in size and became more dispersed, the natural distinction between kin and non-kin was gradually blurred. However, the drive to distinguish between them was not erased. This drive is biological and is reinforced, and at times suppressed, through upbringing and society. So, people seek (mostly subconsciously) signals of genetic relatedness: language, features, skin color, religion, culture, customs, dress, views and so on. The attributes that signify relatedness vary over time and place for various reasons, and with an individual's personal experiences and environment. Overlap among attributes such as

10 Genes that survived over countless generations must have a proclivity to multiply – those that do not have long been displaced by those that do. The same genes reside in multiple individuals. Identical twins have identical genetic makeup, siblings share only about half of their genes, and distant relatives share less. Hamilton (1964) suggests that genes incline the individuals to care about those who carry the same genes (inclusive fitness).

11 A simple way of thinking about this is to imagine an individual as a young woman with limited income. She needs to invest in her health, food, shelter and so on to ensure her ability to bear children (selfishness) and help them grow to further reproduce her genes (immediate-kin altruism). So she will keep most of her money to herself and for her children. An older individual who is past the reproductive age and has a higher income and will invest more in others who are genetically related to her than does the younger and poorer person. Finally, someone who is wealthy will have an opportunity to invest in the reproductive capacity of more distant kin, going beyond children, nieces and nephews, especially if these are already well off and can ensure their own successful reproduction. This calculus reflects maximization of reproductive capacity by equalizing the marginal returns from different investment opportunities.

common religion, ethnicity, language and territory has a stronger effect on the perception of shared genes.[12]

In the contest for resources, giving to people who are similar, the in-group, may not suffice, and the possibility of taking others' resources may be appealing, especially from others who are (or are thought to be) genetically less related. Symmetrically, related individuals need protection from others. This is the simple theory of the complementarity not only between selfishness and altruism, but also between them and hatred directed at the "other," the out-group (Shaw and Wong 2020; Choi and Bowles 2007). Belonging to a group to enjoy collective protection is a secondary response, most likely with similar biological roots and reinforcement by society.

The drives described above are tempered and complemented by more refined strategies, for example, because constant war does not lead to reproductive success (Bowles 2009). Such strategies are incorporated in norms and values of compassion towards and cooperation with groups that go beyond immediate kin, as well as in different attitudes towards actual and potential rivals and competitors. These broader categories vary with local and historical specific circumstances, but tend to be focused on religion, beliefs, nationality, skin color and such, and especially on attributes that overlap (Gintis 2011).[13]

In sum, there are strong biological and cultural factors that promote individual traits that reflect desire for belonging to groups, to have a favorable view of members of one's groups and less favorable view of members of other groups. The nature of the identities that command loyalty is contextual but evokes a sense of genetic relatedness. The strength of sentiments towards in-group and out-group members varies across individuals and contexts.[14]

The next section relates the existence and persistence of significant segments of the nonprofit sector to diversity – the co-location and co-existence of diverse groups.

4. The nonprofit sector: arising from diversity and deepening differences

12 There are many terms used to designate the different rings for people and other species, such as core, bond, clan, tribe, troupe, nation and so on. See Singer (2011 [1981]) for a detailed discussion of the rings (circles) of relatedness, their origins and implications for altruism and ethics.

13 Heterogeneity in strategies may arise from various biological and cultural mechanisms that cannot be discussed here. For evidence of factors underlying heterogeneity, see Zmigrod et al. (2021).

14 Increasing the salience of important identity dimensions enhances loyalty towards the in-group but at the same time strengthens hostility towards out-group members (Gaertner et al. 1993).

In general nonprofit organizations are born in diversity in communities. This emerges from the conditions that generate demand for the nonprofit form of organization as well as the conditions that are required to ensure adequate financing and governance (supply of nonprofit organizations). Continued operations result in deepening of identification with initial groups and under certain historical circumstances, diverse groups develop overlapping goals that may coalesce into worldviews that may result in social, cultural and political polarization.

4.1 Demand and supply of nonprofit organizations are grounded in diversity

The existence of nonprofit organizations in economies dominated by private enterprise has been analyzed in several related economic theories. In what follows, I provide a synthesis of these theories, emphasizing the link to diversity.[15]

In an economy with only private goods and services (i.e., rival and excludable) traded on competitive markets there are no alternative organizational arrangements that can do better than the for-profit firm; the pursuit of profit and decision-making by firm owners will do as well as possible for consumers and employees (Koopmans 1959). However, these conditions are not satisfied in many real-world circumstances, and the violations impose significant costs on stakeholders (consumers or their sponsors). In such circumstances, some stakeholders have an incentive to seek remedies.[16] There are three categories of goods and services that have been identified as principal candidates for inadequate provision by for-profit firms (market failures) as well as insufficient correction by government regulation and provision: public goods, goods and services that require large fixed costs, and goods and services about which there is asymmetric information in favor of sellers.[17]

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15 Anheier (1995) provides a theoretical perspective, and Anheier and Ben-Ner (1997) take a historical perspective on the evolution of the nonprofit sector in relation to various factors, including diversity. Ben-Ner and Van Hoomissen (1991, 1992) provide theoretical discussion and some empirical evidence on the role of diversity in demand *and* supply of nonprofits. A large empirical literature shows the relationship between various forms of diversity and the size of the nonprofit sector: Marcuello (1998); Matsunaga and Yamauchi (2004); Grønbjerg and Paarlberg (2001); Wiepking et al. (2014); Kim (2015); Lu and Dong (2018); Lecy and van Slyke (2012); AbouAssi et al. (2019); Lecy et al. (2019).

16 The stakeholders may be the direct beneficiaries of the organization's activities or sponsors of beneficiaries. Sponsors include, for example, parents who send their children to school or a community center, adult children of parents who receive care in a nursing home, people who care about housing the homeless or schooling children in need, or organizations such as foundations, employers, cultural and religious associations, and so on.

17 For a review of the economic theories of the nonprofit sector, see Steinberg (2003).

1) Public goods are enjoyed by anyone who cares about the goods in question. Air quality, parks, radio signal, clean and safe streets, harmonious social relations, poverty alleviation, political messages, and healthy population are examples of public goods. Nobody can be excluded. Classic private goods and services (excludable and rival) such as food, health and education may have public goods aspects if they are enjoyed not only by the direct consumers but indirectly or vicariously by all those who care about the direct consumers.

People can enjoy the public aspects of goods without paying for their provision. Public goods, even if everybody cares about them, will be under-provided because no self-interested rational people will pay for them. [18] For the organization to exist, some stakeholders must donate sufficient money, and for the organization to continue to operate, some stakeholders must control top management to ensure that donations are properly used. Public goods may be provided in different varieties, some aligned with diversity dimensions (religion, ethnicity, language, etc.). Stakeholders with large demand for the public goods – because of preferences and income – would be generally known in the community for their interests and be subject to group pressure to donate and participate in governance.

2) Some services require large fixed costs: museums, schools, universities, theater, and hospitals. The average cost of provision of these services is much higher than the price (tuition or ticket) that the average consumer would be willing to pay, although the marginal cost of providing the service (of teaching a child, serving a visitor at the museum or presenting a play) may be affordable to many stakeholders. In very large markets, the fixed cost may be spread over a large number of stakeholders, making average cost pricing feasible. In smaller communities, where average cost pricing is not feasible, some high-demand stakeholders could cover much of the fixed costs by agreeing to pay higher prices than other stakeholders by making donations, while low-demand stakeholders pay just the marginal cost. Under ordinary circumstances, it is not possible to implement a multi-price scheme because high-demanders will have no incentive to pay higher prices than other stakeholders (or they will self-provide, like the Medicis and Rockefellers).

A multi-price scheme can work only if high-demanders are willing to voluntarily pay higher prices – make charitable donations to the organization. But for them not to feel that their generosity is not exploited by other high-demand stakeholders, they need to coordinate their

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18 If a donor gives \$x to the organization and the donation is productive such that it produces \$ax of output, the donor will get back \$ax/N if there are N stakeholders who benefit equally from the organization's product.

contributions and have ways to verify that contributions were indeed made. Furthermore, they need to know that the donations are used as promised, so they need to trust the management. Generally, trust is partially backed by governments who can legally enforce that money is not used for private financial purposes of managers but directed to the stated purposes. This is impractical and has not been historically enforced. High-demand stakeholders need a measure of direct control in the governance of "their" nonprofit organizations to ensure that donations are used for the intended purposes.

3) Providers often know more about the quality and other aspects of the products (private goods) they sell than customers. Sellers may seek to take advantage of such situations by misrepresenting the quality of their products. This condition characterizes, to different degrees, many goods and services, with greater severity in the case of healthcare, car repair, medicinal and street drugs, organic food and so on. There are common mechanisms that deal with the problem, from reputation in the market to government regulation. But the effectiveness of these mechanisms has been historically limited for some services. For example, nursing homes are highly regulated because of asymmetric information between providers and customers – the residents and their families – but the residual asymmetric information is large enough to create problems of quality of care, even today, after a series of federal regulatory reforms. Nonprofit organizations provide services without trying to gain profit by exploiting the asymmetric information. To operate, nonprofit organizations in this domain do not need donations but do require stakeholder control to ensure that they do not exploit the asymmetric information to make profit for managers. The difficulty for stakeholders of goods and services of this kind is to have enough common interests in the same products in the same locality to merit the effort to self-provide a good or service. This has generally occurred in the case of local provision of goods and especially services that are important to many people in one locale and are physically concentrated so that many stakeholders use the same providers.

The demand for the types of goods and services discussed above is broadly correlated with a group whose members reside in the same locality and have common interests in the same goods and services. These may be similar educational content, cultural institutions, and healthcare, alleviation of poverty, education for poor children and provision of access to cultural amenities for those who cannot afford them. These demands are strongly correlated with group affiliation and identity. The voluntary engagement in control over nonprofit management and provision of monetary support are strongly encouraged by membership in an identity group whose members have concern for each other and are subject to their peer pressure. Hence demand for nonprofit services and the ability to support nonprofit provision coincide with affiliation with the same identity group. The effect of identity on both demand for nonprofit provision and the ability to support it are enhanced by the co-location of multiple identity groups, that is, diversity.

4.2 In-group orientation and the sustainability of nonprofit organizations

The principal factor that enables the existence of nonprofit organizations of the kind described above is their ability to induce some stakeholders to donate time and money. This ability is linked to the fact that stakeholders belong to a group and identify to some degree with and care about the group's members, so they are willing to make sacrifices of money and time instead of free-riding. In addition, stakeholders must reveal and coordinate their donations, when large, to ensure compliance with pledges and in governance of the organization. Hence nonprofit organizations depend on the maintenance of the bonds among stakeholders and their connection to the organization. There are several ways an organization may build, maintain and strengthen its relationship with stakeholders over time. The element of time is important because there is turnover among stakeholders due to their life course, there are changes in the availability of other providers and other goods and services, and there are environmental changes that affect the nature and strength of various identities that individuals hold.

One strategy is to reaffirm the initial bond – cultural, religious, ethnic, linguistic or other common identity or heritage. Nonprofit organizations communicate with current and potential stakeholders in various ways. An important means of communication aimed specifically at attracting donations is fundraising appeals (Hansen 2018). Appeals encourage identification with other donors and often seek to activate social identities and a sense of belonging to the group with which members of the organization and possibly the organization itself are affiliated (Shang et al. 2008; Aaker and Akutsu 2009).

A complementary strategy is to emphasize the special value of the organization's mission and the goodness and righteousness of those who support it. This is to make stakeholders feel good about the mission of the organization, and about being part of the group, a community of good people holding desirable values. This may be contrasted with attributes of other groups, by characterizing others as not as good or by directly denigrating them (Ben-Ner et al. 2021). The solicitation of donations may include appeals to in-group identities such as religion, race and ethnicity (Drezner 2018). This may not only induce donations, but also prime further identification with a group.

The act of giving itself has the effect of reaffirming the donor's connection to the group. Donation of money and time constitutes a sacrifice by the donor that strengthens and affirms the donor's bond with the target cause and community (Kanter 1972; Iannaccone 1992; Aaker and Akutsu 2009). The contributions are frequently public, which adds to the identification of the donors with the organization in the eyes of others. Donations are often cast or experienced as reciprocal gifts among stakeholders – past, current and future – linking them as a community (Mauss 1954).

Various communication and fundraising campaigns are repeated over time, exposing individuals to the organization's message time and again. Reinforcing a message through repetition is likely to harden attitudes towards in-group and out-group, at least up to a point.[19] Repeated contributions of time and money likewise cement the connection between stakeholders and their organizations, and the groups to which they are linked.

Nonprofit organizations may seek coalitions and alliances with other organizations that are aligned with their goals. This concerns organizations that provide similar services, and organizations that affiliate with the same identity groups but provide different services. The geographic scope of such alliances may go beyond the locale in which an organization is situated. Such measures tend to reinforce stakeholders' interest in specific organizations' services and affinity to identity groups.

5. Dynamics over time: From splintering to fragmentation and polarization

The discussion above suggested that, in general, the nonprofit sector arises in jurisdictions where diverse cultural, religious, ethnic and other identity groups are co-located. In such places, the nonprofit sector tends to be relatively large. First, governments seeking to address market failures often cater to the preferences of large or dominant groups; this forces other groups to provide themselves services of interest to them. Second, such groups may be able to leverage their common bonds to encourage stakeholders to provide donations and other forms of support to sustain nonprofit organizations.

19 The cumulative long-term effect of repeated priming is hard to establish, although one can infer from the effects of different content of educational programs, or from growing up in different cultural and religious environments. There is a large literature that supports this general point; see, for example, Algan and Cahuc (2010). A meta-analysis found that repeated exposure enhances (at a declining rate) the intended attitudes (Montoya et al. 2017).

In this section, I describe a stylized evolution of intergroup relations driven by the dynamics of the evolution in the nonprofit sector in conjunction with broader trends in society. I identify three stages, roughly patterned after the American historical experience. The three stages are (1) splintering, where diverse local groups provide for their members nonprofit cultural, religious, social, educational and other services; (2) fragmentation, whereby nonprofit organizations with similar service missions in different locales linked to similar identity groups coalesce into regional or national alliances and associations to pursue common interests; and (3) polarization, whereby nonprofit organizations and associations in different services with similar identity group affiliations align themselves among broader goals and worldviews, creating camps and polarization among them.

1) Splintering (pluralism). The starting point is a society composed of locales or jurisdictions composed of diverse religious, place-of-origin, linguistic, culture and other identity groups. Members of these groups are affiliated with nonprofit organizations that provide various services. Nonprofit organizations in different services have some overlap in their respective stakeholders that belong to the same groups, but the organizations are largely segregated by identity groups. This is perhaps the diversity that de Tocqueville (1862) saw and admired in the 1830s America, characterized by local and decentralized action in voluntary organizations engaged in varied social, religious, education, economic and other activities (Hall 2016).[20] This is a relatively splintered society, in which nonprofit organizations are grounded in identity groups and operate locally. Soskis (2020, p. 37) refers to this historical stage as "prismatic splintering of the public good into a contending array of associational forms."

2) Fragmentation (coalescing). Over time, improved means of communications and transportation enable enhanced contacts and connections among people across different places.[21] This reduces the role of physical proximity in bringing people together and facilitates distant connections based on affinity. Nonprofit organizations' leaders link with similar organizations to pursue common interests and articulate them in arenas that are increasingly on larger levels, including the national

[20] Rosenblum (1998) suggests, along with Simmel (1955), that pluralism and democracy work best when there are few overlapping affiliations and interests.

21 In the US, the middle of the nineteenth century, about two decades after de Tocqueville's visit, a grand expansion of communication and transportation took off: railroads became part of a national system, the telegraph was introduced, and the US Post Office Department was institutionalized and professionalized. Calhoun (1988) refers to this as "extraordinary transformation in the scale of societal integration during the modem era."

stage. They form agglomerations: associations, umbrella organizations, and national organizations with local branches. Whereas the first stage was characterized by dispersed diverse nonprofit organizations with little overlap among their stakeholders, in the second the boundaries of their original jurisdictions are relatively blurred as organizations ally themselves with other organizations that operate in similar activities and are associated with groups that have similar identities – the identities that sustain each organization.[22]

The various forms of agglomeration of organizations that provide similar services emphasize common themes and interests; as supra-local entities, they appeal to issues that transcend specific local concerns. The common themes link broad identities to broad themes, such as preservation of cultural traditions (ethnic and religious) with immigration and social class. These common themes are likely to appear in fundraising appeals and other messages of local nonprofit organizations and associations.[23] On matters of service, these associations may ally with associations affiliated with different identity groups. In this lattice of interests, external events may affect more than one element, and over long periods of time the defining core of identities may remain stable but other aspects may change. The group identity component may be a common concern to associations in different services, such as immigration from certain countries, voting rights for certain groups, social policies, and so on. Splintering turns into fragmentation.

3) Polarization. In the fragmentation stage there is limited connection between the different concerns of associations in different services that are affiliated locally with similar identity groups. The connections between them evolve gradually, through connections among leaders of associations, leaders' mobility across national associations, and overlapping or interlocking boards of directors and trustees of associations in different services affiliated with similar identity groups. The latter include high-demand stakeholders and their representatives who have influence and concerns that span much larger regions than the local nonprofit organizations and cement horizontal ties among associations in diverse fields of nonprofit activity. Such individuals provide alignment through their personal involvement and through their foundations, that is, contributions and money and time devoted to governance.[24] This is the transition from fragmentation of perspectives and

22 The period after the US Civil War was marked by evolution of national organizations, some organized along ethnic, religious, country of origin, class and similar identities, others crossing these identities (Soskis 2020).
23 Fundraising campaigns that went beyond the local community were introduced in the early twentieth century in higher education and YMCA. Prior to that, fundraising was done in local settings (Gordon 1998).
24 Karl and Katz (1987) discuss overarching goals of some foundation donors, who made contributions to

actions to consolidation in aligned disparate associations and organizations that share common worldviews that largely oppose each other – polarization.[25]

The horizontal alignment of disparate interests and views into broader worldviews is not uniform across any pertinent dimension. But the general trend over the past few decades has been towards increasing polarization, the "process whereby the normal multiplicity of differences in a society increasingly align along a single dimension and people increasingly perceive and describe politics and society in terms of 'Us' versus 'Them'" (McCoy et al. 2018). Identities are rarely expressed by for-profit firms, and government purports to be independent of any particular identity or group. The nonprofit sector, even without the expressly political parties and movements component, is where identities are articulated, reinforced and organized. Polarization, if not produced in the sector, is facilitated by it. The nonprofit sector provides comfortable homes for groups that are aligned with each other – "us" – and are differentiated from others – "them"; as such, it dulls incentives to find common ground between "us" and "them."

6. Conclusions

People donate more to in-group than to out-group, on nearly all dimensions of identity. This is not surprising to anyone who ever heard the expression "charity begins at home" and the like. Living beings have a biological impetus to favor those who carry similar genes to them. They share habitat and roots (literally, for plants). Humans, when dispersed and not sharing a habitat with close relatives, as most have been doing for a few thousands of years, look for signals of relatedness in language, appearance, religion, and other attributes and seek to belong to these groups for amity and protection against other groups. Belonging to a group has also collective social benefits, by

different areas of nonprofit activities in late nineteenth and early twentieth centuries, emphasizing the "robber barons'" role. Odendahl (1990) describes the role of wealthy donors who are active in multiple nonprofit organizations in different service areas. In the twenty-first century, key figures include Soros and Gates and the Mercer and Koch brothers. Some of the same donors, and many others, populated (personally, but often through their staff) important boards of trustees of nonprofit organizations (interlocking boards). A testable hypothesis follows: high-demand stakeholders and their representatives have participated in governance of local nonprofit organizations in the splintering stage, have increasingly participated in regional and national organizations and associations/ governance in the fragmentation stage, and have increased their participation in the polarization stage.

[25] Worldviews are not necessarily coherent bodies of thought or ideas. A key element of worldviews is that they give rise to identities that tend to subjugate certain ideas to others. It is possible, for example, that opposition to certain proven vaccines was the result of opposition to entities that promulgated them, which had little to do with the vaccines. Individuals may have to resolve cognitive dissonance issues that arise from holding opposing views, yet leaders may promote the conflicting views with broader objectives in mind.

reducing incentives to free ride in the provision of various goods and services. Even the animosity towards out-groups may have benefits in cementing loyalty to the group and behaving in a cooperative manner.

At the same time, strong in-group favoritism and animosity toward out-groups has significant downsides, which rise with the diversity of a society and the problems that it faces and needs to resolve collectively. When groups are limited in size and are local, they may splinter a community but this will not have major consequences on conflict among them. The problem is when groups coalesce into few, or just two, camps. This is polarization that makes life in diverse communities, regions and countries difficult and potentially dangerous.

The nonprofit sector is a major actor in the in-group/out-group relations arena, especially in regions and countries that are diverse on important dimensions. Nonprofit organizations provide goods and services that for-profit firms provide at suboptimal levels, if at all, or of inferior quality, and when governments do not remedy the situation. In these cases, it remains up to individuals to fend for themselves. Individual self-provision is an option for extremely few. Collective action is required to enable nonprofit provision, which relies critically on donations of time and money; however, this is feasible only if individuals can organize and overcome inherent free-riding problems. The most common basis for successful nonprofit organizing is the existence of a common identity: sharing a culture, a language, a religion and so on. Nonprofit organizations thrive on diversity in the larger society and on homogeneity among their stakeholders. They cultivate in-group favoritism and out-group weariness as a strategy for continued organizational existence. In some situations this may contribute to pluralism – splintering of society into small groups; in other cases this may lead to coalescing of groups with common identities – fragmentation of society; and in some social, economic and political constellations, this may lead to the formation of camps, each held together by multiple common threads – polarization and conflict.

This is a cycle that feeds on itself, raising the importance of organizations' mission and the stakeholders' common bonds through messaging, honoring contributors, invoking external threats, and deepening the identities they hold. Over a long period of time, the prominence of various identities fluctuates, and categories often broaden. From splintering into many disjointed groups with few overlaps to fragmentation with broader categories on to polarization, there is a gradual transformation of boundaries of identities, some coalescing with others into larger groupings that reflect worldviews and ideologies.

The world, including the world of nonprofit organizations, is not dichotomous on any dimension. However, as connections are made among diverse themes, certain strands of religions, beliefs in science, opinions about effective healthcare, opinions about what is good music, beliefs about what is important in life and what is life itself, concerns about who has certain rights and who is deprived of them, what is beauty, and many other disparate matters, become aligned or subjugated to “higher order” ideas, and become dichotomized. This forces various groups to choose to be near one pole or another on various dimensions, and when the matters become aligned (or accepted to be positively correlated) for many people, polarization among them emerges. The polarized positions may have a dominant theme, or a driving theme, which may be stated openly or obscured by other themes.

The celebrated bright side of the nonprofit sector whereby individuals and organizations are benevolent and charitable towards other individuals and communities is a narrow view of the contemporary sector. The classic meaning of “charitable” (“of or relating to the assistance of those in need” - Oxford Dictionary online) applies to part of the nonprofit sector’s activities in the form of help for the homeless, assistance to earthquake survivors, aid to poor children and support for refugees. Nonprofit organizations also provide much needed diversity that contributes to beneficial pluralism and creativity. Expression of identities and interests in safe environments, particularly by minorities, is a significant need and nonprofit organizations are a haven for them. But the reality is that most of the money donated by the vast majority of people and most expenditures in the nonprofit sector go to in-group activities. While there is nothing wrong with this, and it follows our natural instincts, the sustained operation of large parts of the nonprofit sector in contemporary society contributes to polarization and its attending consequences.

In a society where universalistic institutions are not well established the benefits of strong in-group orientation, assertion of distinct identity and belonging and in-group social control may well outweigh the costs associated with negative inter-group behaviors. Encouragement of pluralism through reinforcement of group bonds and boundaries may serve broad social goals such as growth and equality. In contrast, in a society that experiences polarization along religious, ethnic, racial, political, economic, cultural and other dimensions with strong demarcation lines between competing views, the benefits of strong in-group orientation are probably overwhelmed by the costs of inter-group strife. Polarization does not arise principally from the activities of for-profit firms and not even from the actions of governments (but they can contribute to it). Polarization arises from activities organized by the third sector, the civil society, the nonprofit sector, and that is where we should search for solutions.

The purpose of this essay has not been to provide a balanced and rich view of what the nonprofit sector has done over the past two centuries and to interpret all its complexities. The essay aimed at capturing some aspects that, on my analysis, are important and are of the essence of the sector.[26] I hope that this essay helps launch a research agenda that investigates some of the sources of polarization in diverse societies, and helps identify remedies.[27]

Acknowledgements

I received helpful comments from Rikki Abzug, Lehn Benjamin, Ruth Hansen, Joseph Galaskiewicz, Catherine Herrold, Claire Hill, Michael Hoelscher, Bernard Levinson, Rich Steinberg, Stefan Toepler, Dennis Young and participants at Academy of Management Annual Conference, Association for Research on Nonprofit Organizations and Voluntary Action Annual Meeting, Lilly School of Philanthropy seminar, and the Rome NGOs X symposium.

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26 Picasso's sketch of the idea or abstraction of the bull in a few strokes, to which gradually the details are added (The Bull, 1945) is a good analogy to what I attempted to accomplish here.

27 Most societies have been diverse on various dimensions for millennia, as a result of ancient migration across the globe, wars and conquests, forced movement of people, natural and social disasters, as well as a consequence of the desire of people to improve their lives. More theoretical and empirical analyses are needed to develop policy recommendations. However, seeking to reduce diversity and encourage homogenization (on any identity dimensions) is one idea that should be rejected.

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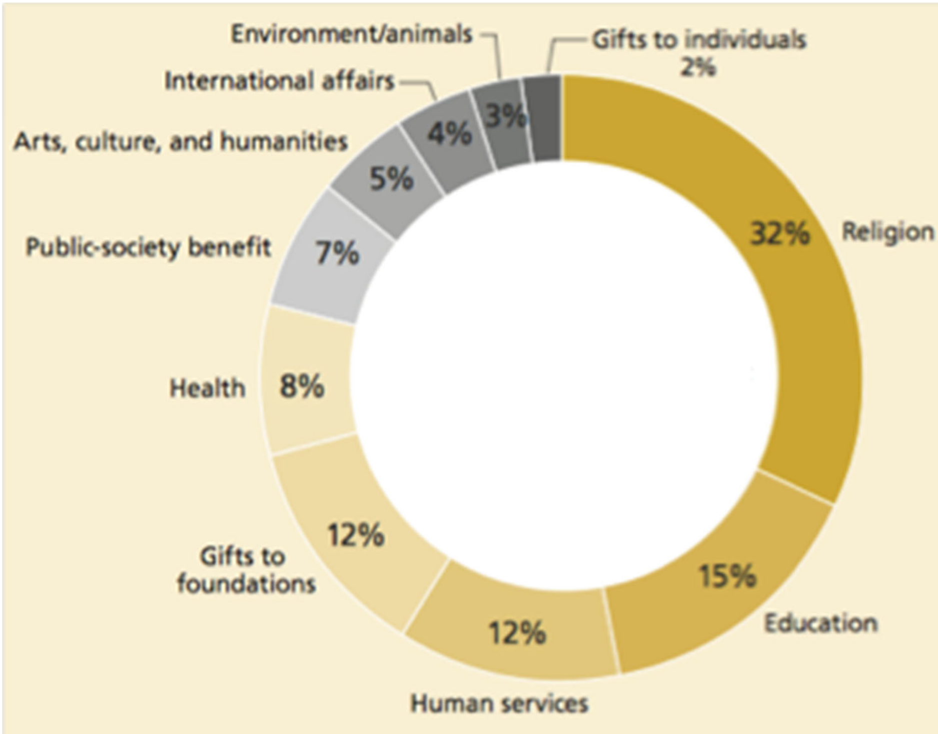
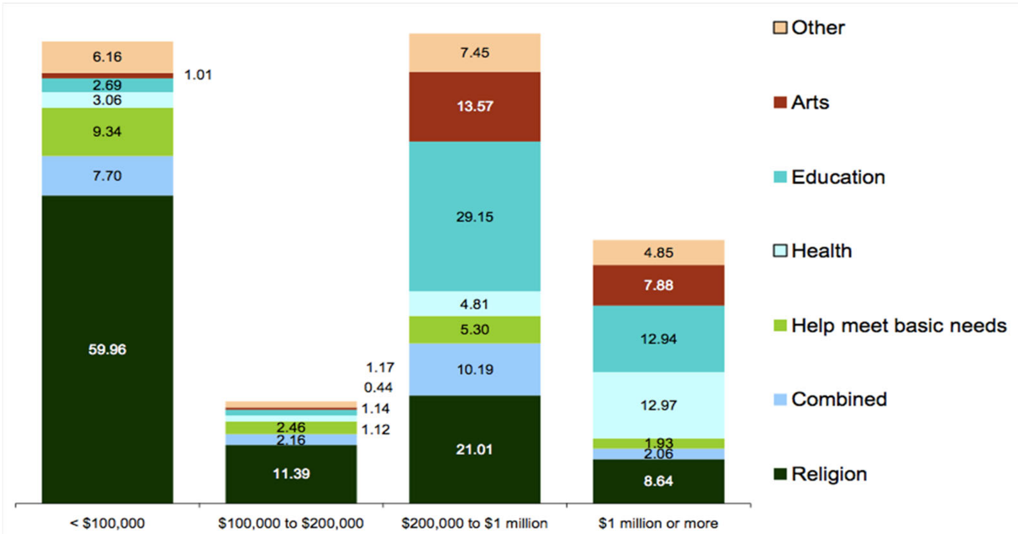


Figure 20.1: Charitable donations by individuals, foundations and corporations, by type of receiving organization, 2014.

Source: Indiana University Lilly Family School of Philanthropy (2015).



90.4%	**7.4%**	**2.1%**	**0.2%**
Percentage of households in income category			

Figure 20.2: Estimated charitable giving in billions of US dollars by donors' income range and by recipient category.

Source: The Center for Philanthropy at Indiana University (2007), Figure 1and Table 1 (for percentage of households in income category) .