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Should Nonprofits Issue Shares?

Written by Rick Cohen
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Yale economist Robert Shiller is exceptionally well known for his housing analysis, including his co-development of the S&P Case-Shiller Home Price Index, but his new book addresses philanthropy and the nonprofit sector and proposes a concept of nonprofit stock. He described his proposal in an interview with CNN Money:

"One problem with philanthropy is that it's unrewarding: You give away the money, and that's it. So as an example of ways to humanize finance, I have a notion of a different form of philanthropy that would have shareholders. You're still basically giving away the money, but the shares you bought through your donation would pay dividends. And at your discretion you can reinvest them in that company or in another nonprofit."

In his blog for the Huffington Post, Shiller called his proposal for nonprofits that issue shares "participation nonprofits," which he defines as a nonprofit "that raises money by selling shares to the public…pays dividends from its profits into a special account in the name of a shareholder." He added, "The shareholders get a charitable tax deduction for making the investment, but can use the dividends in the account only for further charitable contributions, including purchasing shares in participation nonprofits or can spend them on themselves in some predefined emergency situations such as a medical crisis. With participation nonprofits, charitable giving will be more fun for the donors, for they could watch their money grow and feel their influence grow with it, if they invest wisely, fulfilling a natural human need for stimulation and appreciation."

This brings to mind the NPQ Newswire's coverage of the tug-of-war over the Cato Institute (see here and here) in which pro-Koch and anti-Koch forces are fighting over the nonprofit's limited amount of shares. In the Koch case, the defense of the concept of a share-issuing nonprofit is that there was really no appreciation of value to the Cato shares over time; they were simply the equivalent of memberships. But Shiller's idea is that there is an appreciation of value in the form of dividends to the shareholder's account, so to speak, but the appreciation of value is purely in charitable purchasing power. What do NPQ Newswire readers think of this concept? Will it help nonprofits raise lots more money? Does it violate our general "public benefit" intentions as a sector? Do you think the idea might work legally?—Rick Cohen