

History of Non-Profits in the USAⁱ

By Bob Harris, CAEⁱⁱ

The Declaration of Independence was signed on July 4th 1776, declaring independence from Britain. The freedoms expressed in the document (freedom of speech and assemble, among others) have benefited the success of nonprofit organizations and NGOs (Non Governmental Organizations.)

The framers drafted the document inside Carpenters Hall. In fact, Carpenters Hall was built by a Philadelphia trade guild. Trade guilds, groups of self-employed skilled craftsmen, are precursors to today's associations.

There is a rich history in North America for exempt organizations (associations, chambers and other nonprofits.)

1800s

Nonprofit organizations established themselves on the American landscape throughout the 1800s¹. Chambers were forming early in the century. By the mid 1800s many national, state and local associations were established, including the American Institute of Architects, the American Medical Association, American Bankers Association, and the American Dental Association.

Two developments surely had an impact on the formation of national associations in the late 1800s. The railroad and the telephone facilitated communications from coast to coast.

Not surprisingly, as association members collaborated, the first antitrust law was adopted in 1890 – The Sherman Act.

By 1840, French aristocrat Alexis de Tocqueville visited Canada and the USA and published his perceptions in *Democracy in America*.

He described a place where people come together as groups and associations --- for common purposes. Citizens began to think of one nation ---rather than self-interests.

These associations were politically active and self-governing, relying less on the state to achieve their goals.

1900s

By 1900 there were about 1,000 associations. In 1908, President Theodore Roosevelt seemingly commented on the growth of associations with this statement:

¹ It should be noted that the earliest association of continuous existence in North America is identified as the Order of Good Cheer (L'Ordre de Bon Temps), founded in 1604 in Nova Scotia.

“Every man owes a part of his time and money to the business or industry in which he is engaged. No man has a moral right to withhold his support from an organization that is striving to improve conditions within his sphere.”

In 1913, Congress adopted the system of federal income tax laws, and so began tax exemptions². By 1950, the IRS reported the existence of 50,000 exempt organizations. Also in 1950, the first Unrelated Business Income Tax law (UBIT) was adopted and tested.

Towards the turn of the century, scrutiny increased on exempt organizations. One result was public record requirements of IRS documents.

Shortly thereafter, Congress passed the Public Company Accounting Reform and Investor Protection Act of 2002, also known as Sarbanes Oxley. Eventually many of the requirements of for-profit corporate boards impacted exempt organizations by including elements in the 2008 revised IRS Form 990.

21s Century

Today there are nearly 1.8 million exempt organizations; approximately 155,000 of them being 501(c)(6) associations and chambers. Canada has comparable numbers³.

Nonprofits offer a vast array of staffing opportunities. The American Society of Association Executives (ASAE) reports that associations have 260,000 full-time employees and another 35,000 part time positions.

The first decade of the 21st century has been characterized by an economic recession. Thus exempt organizations have worked to increase relevance and maintain their communities and connectivity.

Recent years have seen more scrutiny of nonprofits for several reasons --- focused on ensuring they are fulfilling their reason for existence, media distrust, competition with for-profit businesses and the government’s need for funding.

In 2008 the primary federal governing agency rewrote the reporting form (Form 990) to acquire more information about the governance and management. In 2010, the IRS proceeded to eliminate the exempt status of 300,000 nonprofits

Today’s nonprofit organizations – and their volunteer leaders – are the greatness of our communities. It is a legal and cultural system that promotes positive causes and contributes to benefit society.

Note: Bob Harris provides governance, management and strategic planning services. His website offers free tips and templates at www.nonprofitcenter.com. He can be contacted at bob@rchcae.com.

² For example: 501(c)(3) charitable, religious organizations; 501(c)(6) – business league, association, chamber of commerce; 501(c)(5) agricultural organizations, etc.

³ The Canadian Society of Association Executives reports approximately 70,000 associations registered in Canada.

History of Association, Chamber and Exempt Organizations in USAⁱⁱⁱ

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- 1604** **Order of Good Cheer** founded in Nova Scotia, Canada; exists to this day.
- 1735** Oldest association of continuous existence founded by Benjamin Franklin – the **American Philosophical Association**.
- 1768** The **New York State Chamber** founded by 20 merchants.
- 1773** The **New Haven (CT) Chamber** founded.
- 1774** **Carpenters Hall** – a guild of tradesmen – was used by the country’s founding fathers to draft the Declaration of Independence.
- 1776** Continental Congress adopts the Declaration of Independence.
- 1800** The **Philadelphia Chamber** founded.
- 1830 – 1835** Frenchman **Alexis deTocqueville** visits US to determine what makes America so great. Authors “**Democracy in America**” with many significant quotes about communities and associations constantly forming to serve the needs of people:
- “Americans of all ages, all conditions, all minds constantly unite. Not only do they have commercial and industrial associations in which all take part, but they also have a thousand other kinds: religious, moral, futile, very general and very particular, immense and very small.”
- “Americans use associations to found seminaries, to build inns, to raise churches, to distribute books, to send missionaries ... in this manner they create hospitals, prisons, schools.”
- 1800-1850** **Chambers** form in Mobile, AL; Cincinnati, OH; Galveston, TX; Columbus, GA; Nashville, TN; and San Francisco, CA.
- Civil War** Most associations were local until the **Civil War years** of 1860-1866. Railroads and industry created new markets and the formation of many new trade associations.
- 1886** First association management company founded in Philadelphia – Fernley and Fernley.
- 1900** About 100 associations existed at the national level to influence federal and state legislation, to create standards and to education members.

- 1908⁴** Pres. **Theodore Roosevelt** recognizes the value of associations:
“Every man owes part of his time and money to the business or industry to which he is engaged. No man has a moral right to withhold his support from an organization that is striving to improve conditions within his sphere.”
- 1911** Pres. **Howard Taft** suggests the need for a central organization to represent the interests of business.
- 1912** **US Chamber** founded in response to the suggestion of Pres. Taft.
- 1913** The **IRS provides exemptions for business leagues**, as many associations were known at that time. The 1913 Act also provided exemptions for charitable, scientific, and educational organizations.
Congress first gave associations favored tax treatment largely in recognition of the benefit the public derives from their activities. In simple terms, associations earn their exempt status by meeting many of the needs of their members and the general public that the government would otherwise have to meet.
- 1914** **National Association of Commercial Organization Secretaries** founded, now known as the **American Chamber of Commerce Executives (ACCE)**.
- 1920** The **American Trade Executives Association** was founded, now known as the **American Society of Association Executives (ASAE)**.

Institute for Organization Management founded by NACOS as the **National School for Business Secretaries** – starting as a two-week long program and existing today as a one-week learning experience over four years.
- 1925** Price fixing, territorial agreements and controls of supplies became the norm thus Supreme Court upheld **antitrust laws** that competitors may not form agreements on prices, etc.

US Chamber building completed at 1615 H Street across from the White House on property formerly owned by statesman Daniel Webster.
- 1950** **IRS** reports there are 50,000 nonprofit organizations in U.S.

Congress mandates **UBIT** in 1950 to minimize unfair competition between taxable and tax exempt businesses.
- 1951** The Institute of Canadian Trade Association Executives was founded and became the Canadian Society of Association Executives in 1987.
- 1960** CAE program founded to stand as a mark of excellence among association managers.

⁴ In 1899, the Commissioner of the US Patent Office proclaims, “Everything that can be invented has been invented,” recommending no further need for the patent office in America.

- 1960s** In mid-60s **IRS** notes dramatic jump in number of nonprofits to 250,000.
- 1980s** **IRS** reports more than 1 million nonprofit organizations.
- 1997** **IRS public records laws** adopted for exempt organizations.
- Volunteer immunity** adopted by federal and most state governments.
- 2002** Adoption of Public Company Accounting Reform and Investor Protection Act of 2002, aka **Sarbanes Oxley**, with eventual influence on associations and chambers and the **IRS** incorporate aspects into Form 990 effective 2008. Additional scrutiny follows **terrorism** attacks in the US that may be traced to organizations identified as non-profits.
- 2008** **IRS Form 990** is dramatically rewritten to offer more details about nonprofits with questions about conflicts of interest, board understanding, purpose for existence, etc.
- Elimination of the exemption** from annual filing for organizations with average gross income of \$25,000 or less.
- 2010** **IRS** announces intent to remove exempt status from 300,000 organizations for **non-compliance**.
- US economy near **recession** causes nonprofits to better focus their mission and services; some face reduction in sponsors, exhibitors and members, resulting in lay-offs.
- 2011** **Approximate numbers:**
- 7,200 chambers of commerce
 - 150,000 trade associations and professional societies
 - 1.8 million exempt organizations

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ⁱ Updated Spring 2011

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