

The Marketplace of Ideas:
Government Regulation Failures and Nonprofit Solutions

Peter Yi
December, 2007

Senior thesis submitted in partial fulfillment
of the requirements for a
Bachelor of Arts degree in Economics
at the University of Puget Sound

Introduction:

The marketplace of ideas serves as a free speech exchange of information about ideas in order to make informed decisions in society. Similar to a supply and demand model involving buyers and sellers in a market, the marketplace of ideas include suppliers of information about ideas, and individuals who demand information promoted by suppliers. Information exchanged in the marketplace of an idea contains perspectives and opinions promoted by individuals. While information does not constitute as a “physical” good that is bought and sold in a market, individuals still have a demand for information, which creates a need for a market. In a marketplace of a particular idea, individuals search for information containing views or opinions from other individuals in order to make an informed decision/argument about that idea.

The government plays a role as a regulator in the market of a particular idea, making sure the information produced meets the demands of individuals seeking information. The role of a government generally serves two primary functions: Ensure equality of opportunity and foster an environment where individuals and private initiative can prosper. The government will intervene in a market to correct inefficiencies that exist. Inefficiencies usually result in market failures, which is the failure of the market to allocate resources efficiently.

Government intervention can sometimes be unsuccessful when attempting to correct market failures, because of conditions existing in the marketplace that prevent the government from effectively correcting inefficiencies. Government failure often exists as a result of an unsuccessful attempt by government in correcting market failure.

Nonprofit organizations help correct for inefficiencies present in markets, especially in areas that the government was unable to correct. The government attempts to regulate access to ideas in the market more efficiently through nonprofit organizations, which receive certification and tax exemption under the 501(c)(4) tax code. According to Alexis De Tocqueville, individuals promote democratic values by forming associations. He identified that associations were comprised in the nonprofit sector as “one of the most distinctive and critical features of America life” (Salamon, 1999, 7). Volunteering together will give power to individuals who band together and promote ideas and values in order to make informed decisions (Frumkin, 2002). Nonprofits serve as an alternative means of access to information about ideas. Both the government and nonprofit organizations work to correct market failures that exist in an economy.

This paper will determine whether the government efficiently corrects inefficiencies in the market of an idea, and whether nonprofit organizations solve any inefficiencies left by the government. First the paper will explain why a market for information about an idea exists, and will also determine the costs for individuals actively searching for information about a particular idea in the marketplace. The theory section of the paper will examine whether market failure actually exists and how the conditions in the market warrant government involvement. A supply and demand model for the market of a particular idea will explain the economic theory behind government and nonprofit action. The model identifies how the government regulates the access of ideas in the market. The model also determines whether government failure exists as a result of constraints or conditions present in the market of an idea. If the government fails to correct inefficiencies in the market, the paper will determine whether nonprofits offer an

efficient solution to correct these inefficiencies. In conclusion, the benefits of using nonprofits to correct government failure will be considered, as well as understanding the extent of government regulation of information in a marketplace.

Literature Review:

Steven Ott (2001) presents an argument that nonprofits correct for government failure through partnership with the government. This paper will differ from Ott's work because the paper focuses on government failure in the marketplace of an idea, and whether nonprofits offer the most efficient solution to correct inefficiencies left by the government. Ott argues that the government should play the dominant role in providing access to information on an idea. This paper determines the effects of government failure on a theorized supply and demand model of the marketplace of a particular idea and will suggest the most appropriate role of nonprofits and the government in providing access to information and views.

Joseph Blocher (2007) explains the marketplace of ideas as a metaphor for the First Amendment, which grants free speech to citizens. The metaphor suggests that free speech, like the free market, creates a competitive environment where the best ideas prevail. However, Blocher claims that a market failure arises when an idea is expressed based on the power of the speaker, rather than merit or the truth of the idea. If a majority of individuals in a market adopt a view, other information in the market would not be able to compete fairly due to a monopoly of one view or opinion. Market failures cause inequalities and disparities in the communication of ideas in the marketplace.

Competition decreases as a result of market failure because ideas without merit serve as

the majority in the marketplace. Several court cases served as precedent, such as *Brandenburg v. Ohio* (395 U.S. 444.447 [1969]), which granted individuals first Amendment protection of free speech unless the speech was intended or likely to produce serious violence (Blocher, 2007, 111). The case describes a condition of market failure because when an angry speech is presented to a group of violent and angry people, there is little space for “good” ideas that suggest peace for individuals to adhere to. The angry speech offers a view or an opinion that crowd out competing ideas. Competing views such as promoting peace rather than violence do not have a chance to compete, because the majority of individuals have sided with the angry speech. Blocher suggests that a barrier to entry of information is created due to a “monopoly” of less credible views. Individuals will experience difficulty in entering the market if one view or opinion dominates the supply in the market of an idea. Individuals who wish to promote a view in the market will not be able to, due to the adoption of a dominant view by a majority of individual demanders. A monopoly will decrease the supply of information, which creates a shortage because individual demands for information cannot be met. The expression of ideas could be solved through government intervention, but the ideas would still be limited based on an individual’s ability to reason. The barrier creates inefficiencies in the market of ideas, by limiting the amount of ideas that individuals can adopt or develop. Government action would not be able to correct for an individual’s ability to distinguish good views from bad, resulting in a government failure.

Institutions help individuals distinguish between good from bad information in the marketplace. Blocher incorporates New Institutional Economics (NIE) to describe institutions that effectively regulate in a market and lower transactions costs. He claims

that institutions serve as the regulators of the market, and organizations act as the facilitators of the market of ideas. He also suggests that institutions are better market regulators than the government, because they reduce transactions costs. For example, without media and press institutions, the information flow of free speech would decrease, and transactions costs of searching and information gathering would rise.

Blocher's work suggests that a government failure exists in the marketplace of ideas, and institutions help to correct this failure. His work is relevant to the discussion of government failure in the marketplace of ideas. Many institutions and organizations exist in the nonprofit world to help correct government failure in the marketplace of ideas. Blocher suggests that institutions and organizations lower transactions costs and eliminate barriers to entry in the marketplace of ideas. These institutions also maintain or increase the competition of ideas flowing in the market, in order to prevent a monopoly of one specific idea. This paper will differ from Blocher's work through the supply and demand model for the market of ideas. Blocher focuses on the marketplace for all ideas, and how ideas are exchanged between individuals. This paper will examine the marketplace for only a single idea, where individuals promote information (views and opinions) to others about a particular idea, in order to gain knowledge and make informed, rational decisions. Both markets bear similarities, but this paper will look more in depth at the development of one idea, and how individuals create a demand for it.

Sheila Kennedy (2006) offers insight on the accountability of government action to correct for market failure. Kennedy implies that the state must be held accountable to its citizens in all actions taken. However in certain instances, distinguishing between government and third party action becomes unclear when the state contracts work out to

for-profit, nonprofit, and faith-based organizations. The courts proved to be dependable in enforcing state government accountability. State action was first defined by the Supreme Court in 1883 from the *Civil Rights Cases* (109 U.S. 3 [1883]). Ratification of the Fourteenth Amendment prohibited states from denying the “privileges and immunities” of citizenship to persons otherwise entitled to them. This meant that state government may not deny citizens of their rights, or the people will hold the government accountable. Sharing government responsibilities with third parties such as nonprofits creates a new form of accountability, which distinguishes the actions taken between nonprofits and the government.

Kennedy describes certain characteristics used to examine the relationship between governments and private entities, in determining the accountability of the government. These characteristics are described below:

The existence, nature, and extent of government funding; the nature and extent of government control of the activity in question; the extent to which government has authorized a contractor to exercise government powers; and a functional (holistic) analysis (Kennedy, 2006, 74).

Kennedy argues that when a single entity such as the government, accounts for most of a contractor’s income, then that entity has the power to dictate behavior. If government has the authority to control the manner in which the work is done, it should be held accountable for the results. When the state uses a private entity such as a nonprofit organization to act on its behalf, an agency relationship is created. The government should then be held accountable for any actions of the entity. Typically, the government is responsible for delivering a service, and contracting third parties still hold the government accountable. Kennedy states: “Where government undertakes an activity,

funds it, authorizes a contractor to act on its behalf, and effectively dictates the manner in which it has done, that activity should fairly be attributed to government” (Kennedy, 2007,75). Being able to identify when the government intervenes or acts in a market will help understand the role of government and also how nonprofits act in order to correct inefficiencies.

Kennedy’s paper is significant because distinguishing between government and private action would help identify government failure in the marketplace. When market failure is present, the government will intervene to correct inefficiencies. This paper will differ from Kennedy’s work because it will focus on the role that the government and nonprofits play in correcting inefficiencies in the market of an idea. The government contracts work out to third party firms such as nonprofit firms in order to correct these inefficiencies. Determining whether nonprofits work with the government or as a separate entity will help in determining whether governments or nonprofits earn the credit for correcting market failures.

Walter Powell and Elisabeth Clemens (1998) analyze the relationship between nonprofits and governments in Germany and the United States. The U.S. welfare system is generally viewed as the third sector dominant model, which includes limited government involvement in social and economic life and primary reliance on private philanthropy. However, Germany is generally viewed as a classic government dominant welfare state, where government plays the dominant role in the provision of welfare services. The authors describe the system of welfare in the United States, which was generally mixed between nonprofits, for-profits, and the government. In certain areas of social welfare, government plays the dominant role, and nonprofits in others. For

example, nonprofits play the dominant role in the hospital sector, where over half of all hospitals in the U.S. are private, nonprofit organizations. The authors address the third party government role in the U.S., and explain the history behind using nonprofits to promote social welfare. When economic distress mounted in the 1930's and again in the 1960's, third party government provided a good response to improving welfare in the economy. This response allowed the government to expand its activities without expanding its bureaucratic power. The government would provide the financial backing, and nonprofits would deliver the service. This paper will differ from Powell and Clemens's work because it will focus on the government and nonprofit role in the marketplace for a particular idea, where individuals demand information about an idea. Rather than the government and nonprofits working together to create efficiency in a market described by Powell and Clemens, nonprofits offer a solution to inefficiencies created by the government when trying to correct for market failure. This paper suggests that the government and nonprofits do not work together in correcting inefficiencies; rather nonprofits serve as an alternative solution to problems created in the marketplace. Also, unlike Powell and Clemens's comparison of governments between the U.S. and German economies, this paper will explore the typical market of one idea in any economy and assess the government's role in correcting market failure.

Giovanni Cerulli (2006) suggests that unsatisfied citizens demand greater or different level of goods and services because the "standardized" level provided by the government fails to meet their preferences, resulting in government failure theory. He argues that a potential correction for market failure would be bringing in nonprofits to provide additional goods and services in order to meet the demands. However, Cerulli

acknowledges that meeting demands of individuals fails to recognize two things about nonprofits: entrepreneurship in nonprofits, and the “redistributive” role played by them. Cerulli also suggests that any community has a specific preference in terms of financing for public benefits between the government, for-profit, and nonprofit organizations. The amount of a good or service not paid by the citizens is paid by the whole community, referring to a transfer, which is decided at a political level through voting. Cerulli suggests a “make or buy” approach which explains why the government prefers to finance via transfer private entities such as nonprofits rather than produce these goods directly. Equity and efficiency issues can be solved using nonprofits, and the market is likely to see a future increase in these organizations. Unlike Cerulli’s argument that nonprofits act as a producer of goods, this paper will suggest that nonprofits act as a facilitator in the market of an idea, where individuals who makeup a nonprofit organization come together to search and find information about a particular idea. Nonprofits do not directly produce information about ideas, but act as a forum for views to be discussed between individuals who demand information and individuals who supply information about an idea.

Economic Theory for a Market of a Particular idea:

Individuals influence one another by sharing their opinions and views on ideas. These different perspectives affect an individual’s decision making and the formulation of ideas. Individuals should seek ideas and beliefs other than their own, because it will enable them to consider opposing views of an idea in order to make an informed decision about an idea in society. In deciding whether abortions should be legal for example, an

individual should consider the positive and negative aspects of having an abortion in order to understand the full effects. Individuals would be able to rationally weigh the good and bad aspects before making up their minds about abortions. In politics, making an informed decision results in individuals voting knowledgeably toward improving some issue in society such as social welfare, where citizens look to improve the well being of society by improving healthcare, education, or poverty. In an ideal democratic world, citizens seek different sides of an argument/idea and can then make an informed decision and vote on policies that are implemented.

The democratic citizen is expected to be interested and...to be well informed about political affairs. He is suppose to know what the issues are, what their history is, what the relevant facts are, what alternatives are proposed, what the party stands for, what the likely consequences are (Sheff, 2007, 10).

When an individual is ignorant about an idea/issue, he/she should actively seek information about a view in order to make an informed decision without any biases. Individuals who are well informed can make more rational and unbiased decisions about political and private issues. For example, an individual who lacks knowledge about affirmative action policy will seek different points of view on whether affirmative action would benefit or hurt society.¹

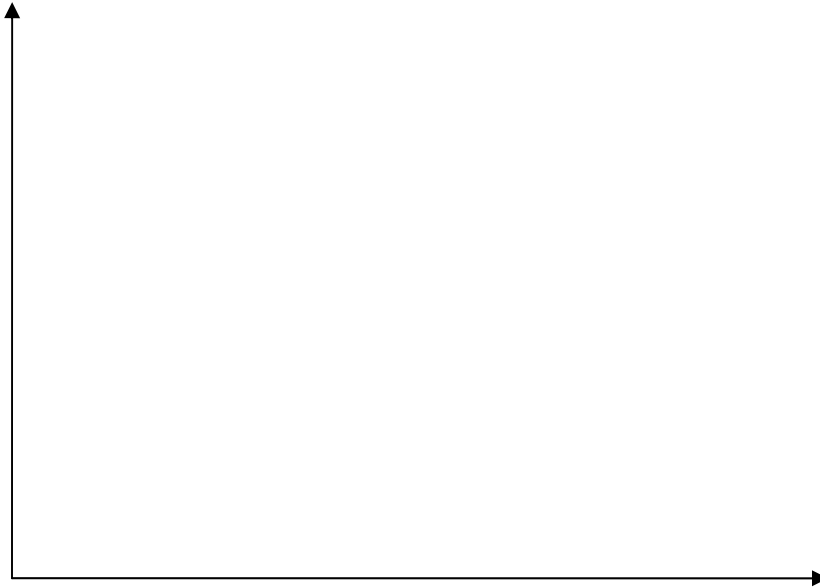
Individuals receive utility when they learn about new perspectives about an idea. Utility is defined as satisfaction received from consuming a good or service.² The individual's utility for a single idea is displayed in the model below.

¹ Affirmative action - positive steps taken to increase the representation of women and minorities in areas of employment, education, and business from which they have been historically excluded. steps involve preferential selection—selection on the basis of race, gender, or ethnicity (Fullinwider, 2005).

²Total utility - The aggregate sum of satisfaction or benefit that an individual gains from consuming a given amount of goods or services in an economy. Usually, the more the person consumes, the larger his or her total utility will be (Investopedia, 2001).

Figure 1 – Diminishing Marginal Utility Curve for an individual

Utility of an
Individual



Amount of Knowledge/information
of one idea.

In the utility model, the horizontal axis represents the amount of knowledge gained by searching and finding information, such as searching for opposing views or opinions of one idea. The vertical axis represents the marginal utility (happiness/satisfaction) at each level of knowledge gained about a particular idea. The individual displays a decreasing marginal utility for the idea because as the individual actively searches for information, he/she receives a positive but decreasing amount of utility for each additional unit of information. The utility increases, but at a decreasing rate because there is a threshold of how much knowledge about one idea that the individual can gain. This threshold varies for each idea, and once the individual reaches the threshold, he/she will receive less satisfaction/happiness for each additional view of an idea gained. In other words, the total

utility of the individual will increase at a slower pace as an individual increases the information gained about a particular. The individual will stop searching for information when each additional view/information gained starts to have a negative effect on happiness/satisfaction, where costs of searching become too high.

Searching for information about an idea has a cost. When an individual actively searches for information of an idea, there is a cost associated with each piece of information gained by the individual called a transactions cost of time and income. The equation is displayed below:

Equation 1 – Transaction cost associated with gaining knowledge

$$\mathbf{Tcost = W \times T.}$$

This transactions cost equals the wage rate times the amount of time, which is the time individuals spend educating themselves rather than earning income. The wage rate equals the income earned by the individual who is searching for information of an idea. The amount of time indicates the time spent actively searching for information.

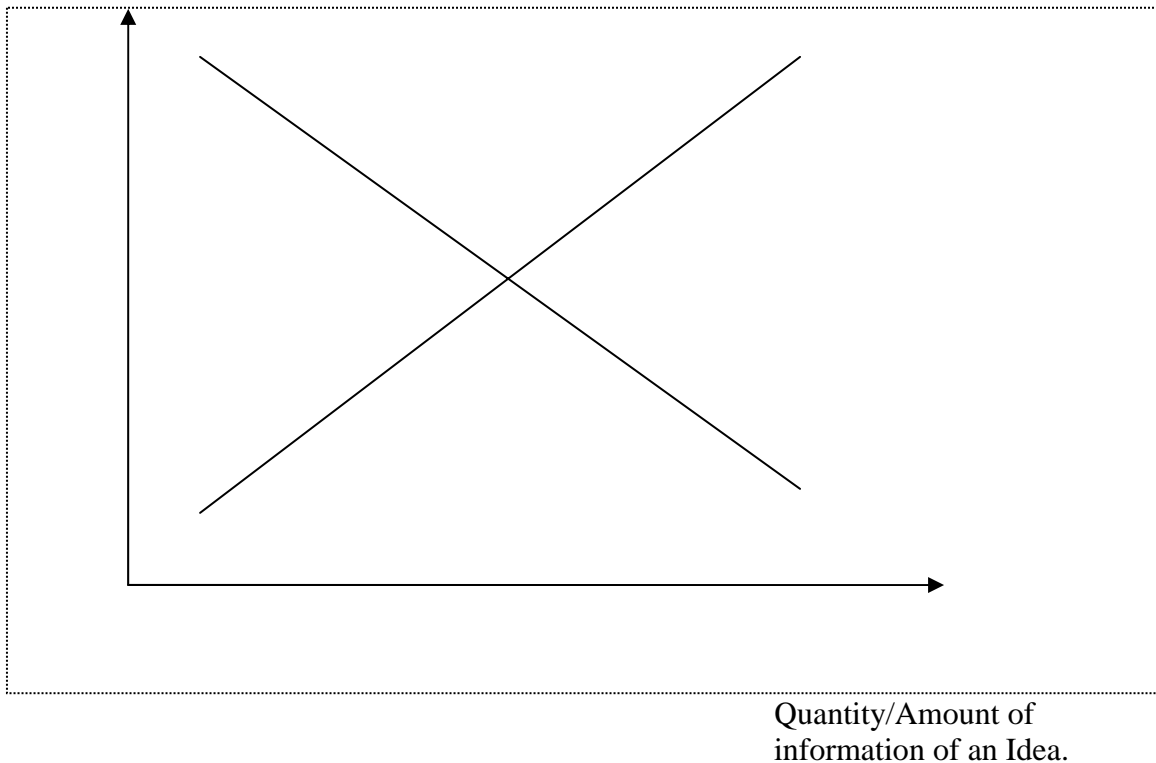
Individuals are not physically paying for information gained from searching. Instead, they are incurring an opportunity cost, which is the cost of an alternative that must be forgone in order to pursue a certain action. Opportunity cost measures the benefits an individual could have received by taking an alternative action. The opportunity cost of an individual spending time searching for information of an idea would be the income that could have been earned from working. The time cost increases as the individual gains each additional piece of information of an idea because there is more time spent on

searching for each additional view, which demonstrates diminishing marginal utility. When searching for information such as other points of view on one idea, individuals have a chance to gain a better understanding when information is found, because they have more knowledge about the idea. A market exists for each idea, where individuals search for information.

The supply-demand model in the marketplace of a single idea is displayed below.

Figure 2 – Supply and Demand Model for a Single Idea

Tcost



The suppliers consist of individuals or groups in societies who contain views and opinions about a particular idea. By supplying a perspective or view about an idea, a supplier seeks to persuade a demander to accept his/her view. Any individual who contains an idea or belief to promote toward other individuals constitutes a supplier of an

idea in the marketplace. There are a different number of individual and group suppliers in the marketplace, which creates a competitive environment where good information/views flourish and bad ones fail in theory. The competition of information between the suppliers gives demanders a variety of information and views to adopt. In society, individuals alone as well as in groups produce views and information in the marketplace in order to entice other individuals to adopt them. Any individual with a belief or view acts as a supplier in the marketplace. The exchange of information creates an environment where individuals have access to a variety of information.

The demand curve is created from a desire/need for information on an idea. Individuals demand information about a single idea, and will actively search to gain knowledge. The demand curve in the model represents the different kinds of information that individuals want to adopt from the suppliers in the market. However, both suppliers and demanders incur costs associated with information.

The market for a particular idea contains costs for information gathered by an individual. The vertical axis of the supply-demand model is considered the cost associated with each idea in the marketplace. These costs are associated with the exchange mechanism between the demander and supplier in the market of one idea, meaning that the individual who seeks information of a single idea from other individuals must incur an opportunity cost, or give up something in return. This exchange mechanism between the demanders and suppliers demonstrates that information is not really “free.” “Anytime people transact, they must pay not only the price of the goods or the services exchanged, but also the price of finding the good in the first place, evaluating its worth,

and so on” (Blocher, 2007, 114). The exchange mechanism incurs transactions costs for both the supply and demand sides.

In the market of a particular idea, suppliers incur risk costs, which are associated with free-riders. Free-riders consist of individuals who consume and benefit from a good without having to pay for the good. Once a supplier promotes a view or perspective in the marketplace, without clearly defined intellectual property rights³, other individuals could use his/her view without crediting the supplier. Other suppliers could steal another supplier’s views and promote them as their own. While any individual can promote a view or opinion for any individual to adopt, credit must be given to the original source of the view. In writing essays for example, an individual may include ideas or opinions written by other individuals. However, these ideas or opinions must be cited in the essay, in order to give credit to the individual who created the view or opinion.

Suppliers in the market also incur the time costs similar to equation 1, because they must spend time on advertising or promoting their views to individual demanders. There is also an opportunity cost of income, where the supplier foregoes on income that he/she could have earned because of time spent on promoting. This cost would be measured in the same way demanders search for information, but the supplier spends time promoting views and beliefs rather than search for them.

On the demand side, the individual seeking information will incur the same transactions costs described in equation, but also the addition of a dollar cost for assessing credibility of the supplier. For example, the individual can spend money on

³ Intellectual Property rights - The rights to intangible property that is the product of the human intellect. Intellectual property may be protected by copyright, trademark or patent. The holder of intellectual property rights is usually the person or persons who developed the product or the organization that funded it (Wijk & Jaffe, 1996).

consumer reports or for books in schooling in order to gather information on the credibility of a supplier of an idea from a university or business. An individual must actively search for other views of an idea and must also determine the validity of the individual or group that offered that view.

Assessing the credibility of a supplier could be done through word-of-mouth, where individuals ask others about how accurate and honest the supplier of the idea really is. Another way to assess the credibility would be through credit reports or forums online, where individuals can look at feedback left from other individuals about a supplier in the market. This would also be factored into the time cost equation in equation 1. Ultimately, the individual will try to choose the optimal level of information of one idea, where the time cost of searching for an idea does not exceed the benefit/amount of information gained about an idea.

The most efficient level of information to gather on an idea is where the marginal benefit of the information equals the marginal cost of finding the information at Q_0, C_0 . The coordinate at Q_0, C_0 represents market equilibrium, which is a condition where a market price is established through competition such that the amount of goods or services sought by buyers is equal to the amount of goods or services produced by sellers. In the model of one idea, the market equilibrium is the condition where a market cost is established through competition and the quantity demanded for information of different views is equal to the information produced by the suppliers. Inefficiency occurs when transactions occur at a coordinate where marginal benefit is not equal to marginal cost, meaning that there is an imbalance of suppliers and the information demanded, often resulting in a market failure.

In an ideal world, citizens assume that individuals in the marketplace of ideas cooperate, negotiate, and exchange information about ideas efficiently and fairly. Information exchanged between suppliers and demanders consist of views and opinions offered to individuals to help them gain knowledge about an idea or issue. However, market failure can exist in the market of ideas, when the time cost is established through competition such that the amount of goods or services sought by buyers is not equal to the amount of goods or services produced by sellers. In the market of ideas, market failure occurs when an idea is expressed based on the power of the speaker, rather than on merit or truth of the idea. Regardless of whether the speaker helps individuals gain knowledge of information about an idea, people will adopt a view that stands out more through a speech or influence of an individual. Blocher describes an example of market failure in the market of ideas:

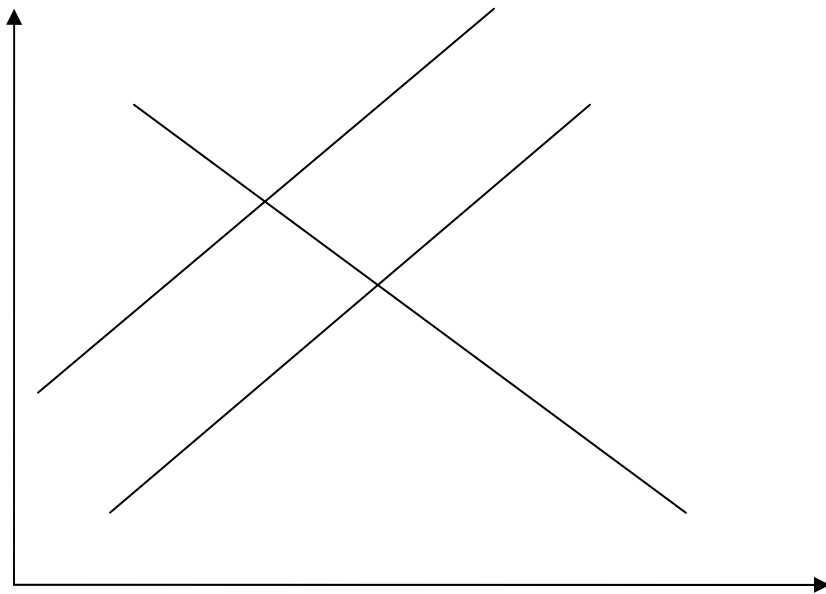
The mob scenes contemplated by *Brandenburg*, like the clear and presently dangerous situations described in *Schenck*, represent a kind of market failure. When hateful and provocative speech is delivered to an angry and potentially violent group of listeners, there is realistically little room for “good ideas” – such as pleas for calm or peace-to win out (Blocher, 2007, 111).

In the market failure of ideas, information such as a view/belief of an idea may be popular among individuals, even though it may promote violence. Even if the view/belief was true, it will prevail in the market not because of its merit, but because it has not faced any true competition. If there is no demand for certain a view, there would be no reason for an individual or group to supply/promote that information. Information containing opposing views of an idea would have difficulty staying in the market because of the dominant view being adopted by a majority group of individuals. Market failure occurs as a result of a shortage of suppliers due to a monopoly of one view, which changes the

equilibrium point Q_0, C_0 . As described earlier in the paper, suppliers consist of individuals or groups that offer information such as an opinion or view about an idea to other individuals who demand information about an idea. The effects of market failure on the supply and demand model are demonstrated below:

Figure 4 – Inefficiency in the Supply and Demand Model

Time Cost



Quantity/Amount of
Information of an Idea

As a result of decreased competition due to a dominant idea that causes market failure, the supply of ideas would shift left (S_0 to S_1), indicating a decrease in the ideas being exchanged in the market. The amount of information offered to individuals in the market for one idea decreases because the demand for other views would decrease. The quantity demanded decreases (Q_0 to Q_1) because individuals demand fewer views other than the one adopted by the majority. The majority consists of individuals in societies that have

adopted one view based on a powerful speaker of the individual rather than the content of it. The cost of ideas increases (C_0 to C_1) due to a shortage of information in the market because suppliers of information who are still in the market must devote more costs (time and money) to promote their ideas in order to compete with the dominant view. A barrier to entry is formed where other ideas are difficult to form and compete in the market as a result of a dominant idea that is accepted by the majority of society. The cost of entering the market for one idea increases because individuals must work harder to compete and spend more time costs promoting their views. Competition of other ideas entering the market has decreased, and suppliers must work harder to stay in the market to compete with the dominant idea adopted by a majority of individuals. Ultimately a monopoly of a supplier's view or opinion creates a market failure, leaving an opportunity for government intervention to solve this inefficiency.

The government plays a significant role in the market of an idea because it intervenes when market failures occur. The government sets up institutions to help individuals form groups to voice their opinions. These institutions act as service providers, making sure individuals can fairly promote their ideas in the marketplace.

Institutions are the humanly devised constraints that structure human interaction. They are made up of formal constraints (rules, laws, constitutions), informal constraints (norms of behavior, conventions, and self imposed codes of conduct), and their enforcement characteristics (Blocher, 2007, 116).

While institutions serve an important way for individuals to come together with common ideals, they do not act as suppliers of ideas in the market. The government attempts to regulate the market of ideas, which attempts to ensure fair competition between suppliers as well as demanders. By acting as regulators, the government provides a public service

to individuals in society. Generally, the free speech amendment under the U.S. Constitution grants any citizen in the United States the freedom to express ideas and views among other individuals. It is the right of any U.S. citizen to promote a view or opinion to other individuals, given some limitations. If the view or opinion promotes a speech that may result in violence or hateful acts upon individuals, then the government has a right to deny the speech. In the court case *Schenck v. U.S.* (249 U.S. 47 1919), the government may deny constitutional protection of speech which creates a “clear and present danger that it will bring about the substantive evils that congress has a right to prevent” (Blocher, 2007, 110). If a view/stance about an idea promotes violence or danger toward any individuals, precedence allows the government to regulate the market of an idea by denying certain views from being promoted. If the information (view or opinion) promotes violence toward other individuals, the government may prevent the information from entering the market. Government regulation would help in maintaining fair competition in the market by making sure one supplier does not dominate another in promoting a view. However, there are constraints that exist in the market that prevent the government from efficiently correcting market failure in the market of an idea.

The government will act and intervene in order to correct market failure in the marketplace of an idea. However, government action may produce new inefficiencies and conditions which would hurt the market. Government action is limited due to constraints present in the market that prevent it from efficiently correcting market failure. The majoritarian, knowledge, and categorical constraints hinder the government’s ability to correct market failure because the constraints create problems that the government cannot fix.

The majoritarian constraint limits the government to respond only to the majority of individuals in society. The government only responds to the majority needs, making it difficult to respond to minorities whose demands differ from the norm. The government will regulate the market of ideas by ensuring that the demand for views of an idea are met by suppliers, but only individual demands in a majority are met. This constraint makes it difficult for the government to efficiently regulate the market of ideas, because the government cannot accommodate all individuals' demands for ideas in the market. The institutions setup by the government as described earlier in the paper can only provide a voice for a majority, rather than individual ideas. Government provision in the marketplace is strained due to the inability to satisfy all individuals' demands for ideas.

A knowledge constraint in the market of an idea prevents the government from efficiently regulating all relevant information, ideas, and research needed for informed decision making on public issues. The government is organized in a hierarchical manner, where the government cannot be expected to regulate efficiently if it lacks knowledge about minority demands of ideas in the marketplace of idea. The information about minority demands for ideas include the time costs at each level of searching for credibility of the supplier as well as alternative views of an idea. The government has no effective way of really knowing the full costs of supplying and demanding a view, which makes it difficult for the government to know the supply and demand of individuals in the market. The government is a large, bureaucratic system, which can limit engagement with citizens. Individuals have a difficult time expressing demands for information because of the difficulty in one individual voicing his/her demand up through the hierarchical system of government. Government regulation of ideas in the marketplace is

not efficient because the government is too large and lacks the knowledge of the types of ideas that should enter the market.

Similar to the knowledge constraint, a categorical constraint limits the ability of government to ensure suppliers meet the demands of individuals in a minority. The government fails as a regulator if suppliers do not meet an individual's demand of a view in the marketplace of an idea even though the demand differs from the social norm.⁴ The government must regulate the market of an idea in a uniform and universal basis, meaning that the government must make sure the supply of views equals the demands of views. The government may not deny an opposing view of an idea, unless it is dangerous to the public as explained earlier. As result of the categorical constraint, the government cannot account for an individual whose demand of views differs from the social norm. The government cannot allow one view of an idea to enter the market of an idea by denying an opposing view from entering the market based on individual demander preference (Ott, 2001). Information including views and opinions cannot be sorted based on individual preference as a result of the categorical constraint.

Governmental regulation as a correction for market failure results in a government failure, where the government fails to solve inefficiencies present in the market of an idea. The constraints present in the marketplace limit the government's ability to efficiently regulate the supply and demand of information exchanged in the marketplace. Information asymmetries exist in the market, where the government lacks sufficient information about the players in the market. While the government successfully

⁴ Social norm is defined here as rules of conduct and models of behavior described by a society. They are rooted in the customs, traditions and value systems that gradually develop in this society. Performance is an example of a value assimilated within the prevailing social norm. Resisting it can lead to exclusion (Lexicon).

responds to majority demands, the constraints present in the market of an idea prevent it from successfully eliminating the problem of market failure. Hence a government failure exists when the government tries to regulate the market of ideas by permitting and denying the ideas in an attempt to maintain competition between suppliers. The government cannot correct market failure alone.

Theory of Nonprofits Correcting Inefficiencies left by Government Failure:

An alternative solution to market failure involves nonprofit organizations, which help fill in the niches where constraints limit the government from efficiently regulating and promoting ideas in the marketplace. Ultimately the goal for the government is to correct the market failure in the marketplace of ideas by increasing competition by increasing the ideas supplied and decreasing the costs associated with each idea demanded. Nonprofits offer a way in which to successfully achieve the goals sought by the government. Nonprofit organizations are certified by the government under 501(c)(4) status, which serves to promote social welfare.

Nonprofits increase competition between suppliers by filling in the niche left by majoritarian constraint, by allowing groups of individuals to combine resources to produce views of ideas they all believe in, but cannot convince a majority of society to support (Salamon, 1999). The government provides institutions that act as forums for individuals in a majority to supply views and information about an idea, and nonprofits help provide the supply for minority individuals. Nonprofits act as institutions where individuals can promote views on ideas that may not be popular among the majority group in society. For example, in promoting social welfare, two nonprofit organizations

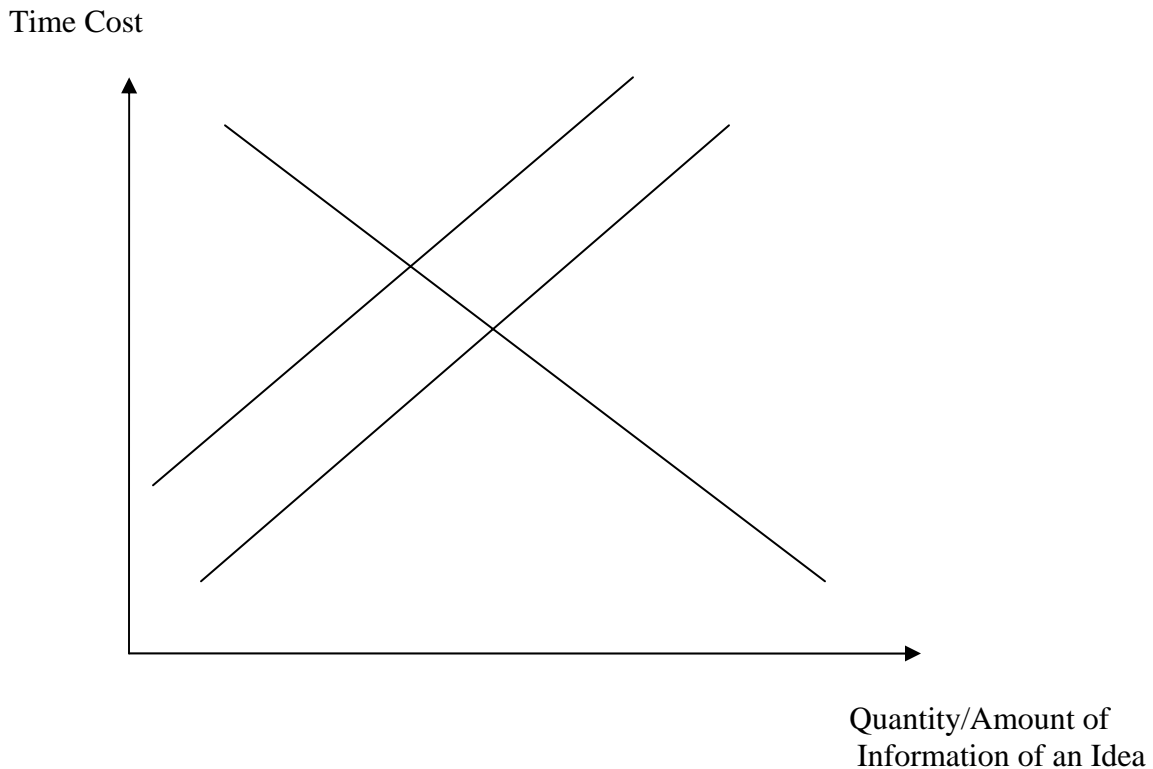
offer opposing views about the issue of affirmative action. The NAACP (National Association for the Advancement of Colored People) and the ACRI (American Civil Rights Institute) are both civil organizations certified by the government as non profits, but promote contrasting views of affirmative action to the public. The NAACP promotes preferential treatment for minority groups due to the belief that racial minority groups such as African Americans are currently disadvantaged in the workforce and in admissions to universities. The ACRI looks to educate the public on the harms of racial and gender preferences, due to the belief that all groups of individuals are currently equal and special privileges in the workforce and admissions to universities would disrupt the balance in society. Both civil organizations look to improve social welfare, but have different views in achieving this goal. Both the NAACP and ACRI provide views on the idea of affirmative action, and these views help individual minority demands to be met in the marketplace. “It also provides a vehicle through which specialized demands – for culture and arts or other collective goods – can be pursued, and through which public services themselves can be delivered” (Salamon, 1999, 13). The demands of individuals that differ from social norms (majority) are now met by nonprofit organizations.

Nonprofit organizations decrease the costs associated with demands for a view of an idea by decreasing search costs for each individual demander. As explained earlier in the paper, individuals undergo an opportunity cost of searching for a credible supplier/promoter of a view of an idea. Nonprofits act as credible institutions certified by the government, and the views expressed through these organizations are more reliable than other organizations. Individual demanders experience a decrease in search costs by using nonprofits as a source for views of an idea due to the non-distribution constraint.

This constraint restricts nonprofits from distributing its net earnings to a group such as board members or directors, who oversee an organization. The non-distribution constraint ensures that net earnings made from non-profits will be devoted entirely towards financing further services that the organization was formed to provide (Hansmann, 1980). There is no incentive to cheat or provide unsatisfactory services to individuals, because nonprofits cannot make a profit. Nonprofits under a 501(c)(4) organization for example, must operate exclusively to promote in some way for the common good or general welfare of the community (Reilly, 2003). Suppliers for a view of an idea under a 501(c)(4) organization are credible because they must adhere to strict guidelines, which makes it easier for individual demanders to assess the credibility of suppliers. Therefore nonprofit organizations decrease the search costs for credibility of suppliers in the market of an idea, which helps eliminate an inefficiency left by the government. The effects of nonprofits can be seen in the market of an idea.

In the supply and demand model for the marketplace of an idea, nonprofit organizations help correct market failure by increasing the supply of ideas from S_1 out to S_2 . So. The model is displayed below:

Figure 5: Correction to Market Failure



The supply of information and views increase because nonprofits help increase the suppliers of views of an idea to fill unmet demands by individuals in a minority. As a result of the shift in supply, the quantity demanded for information and views of an idea increase out to Q_0 from Q_1 because individual demands that differ from the majority are now met. This in turn decreases the time cost associated with each idea out to P_0 from P_1 because nonprofits reduce information asymmetries through an increase in the supply of information of an idea. A combined effort from the government and nonprofits help the marketplace of ideas run efficiently by bringing the market of an idea back to equilibrium, where Q_0 equals P_0 .

As mentioned earlier in the paper, Q_0 must equal P_0 in order to be at equilibrium.

The new quantity at Q_0 is a more efficient level than the quantity at Q_1 because Q_1 is the quantity of information at a shortage, where the supply of information is less than the demand of information of an idea. Disequilibrium occurs at Q_1 , where marginal benefit is not equal to marginal cost, meaning that there is an imbalance of suppliers and the information demanded, often resulting in a market failure. Nonprofits help increase the suppliers of information out to Q_0 where the suppliers of information can meet the demands of individuals who seek views and opinions (supply equals demand). Ultimately nonprofits increase supply and decrease the cost of searching for information, which allows the market for one idea operate efficiently.

Potential Weaknesses:

There are potential weaknesses to the theories presented in the market of one idea. The threshold of utility for knowledge of an individual is difficult to measure because knowing each individual's preference of knowledge wealth for one idea is difficult. Each individual contains his/her own tastes and preferences about how much information gained will be sufficient for them to make an informed decision. The opportunity cost of each individual differs because the willingness to give up income in order to search for information is subjective. Also, the individual's current knowledge of an idea would affect the amount of knowledge needed for informed decision making. Current knowledge of an idea could either increase or decrease the amount of information needed. The opportunity cost of each individual can estimate an individual's utility level for information.

Future Research Suggestions:

A possible area of future research could be to look at the relationship between nonprofits and the government in other countries and determine whether nonprofits play a more dominant role in a market of ideas and compare them. Each society contains different market failures, and analyzing whether the government and nonprofits work together equally or if one contains more power than the other.

Conclusion:

In the supply and demand market of one idea, there is a shortage of suppliers of information of an idea, which results in a market failure. This paper developed a theory of how market failures can exist in the market of one idea, and assessed the government's role in its attempts to correct market failure. The government cannot efficiently regulate the market of one idea due to a series of constraints present in the marketplace. Government failure occurs as a result, where the government fails to correct for market failure. The theory of nonprofit action offers a potential solution to the inefficiencies that exist in the market of an idea by filling in the niches (providing for minority demands) left by the government. Nonprofit organizations increase the supply of information in the market, which decreases the opportunity costs of searching for views and opinions on an idea. As a result, the suppliers can meet the demands of information, which brings the market to equilibrium.

Bibliography

- Frumkin, Peter. On Being Nonprofit: A Conceptual and Policy Primer. Cambridge, Massachusetts: Harvard UP, 2002.
- Powell, Walter W. and Elisabeth S. Clemens. Private Action and the Public Good. New Haven: Yale UP, 1998.
- Cerulli, Giovanni. The Redistributive Role of Non-profit Organizations. May 2006: 5-8.
- Tullock, Gordon, Seldon, Arthur, and Gordon L. Brady. Government Failure: A Primer in Public Choice. Washington, D.C.: Cato Institute, 2002.
- Hansmann, Henry B. The Role of Nonprofit Enterprise. *Yale Law Journal* 89 (1980): 835-901.
- Ott, Steven J. The Nature of the Nonprofit Sector. Utah: Westview Press, 2001.
- Kennedy, Sheila Sweiss. Holding Governance Accountable: Third Party Government in a Limited State. *The Independent Review Journal* IX, no. 1 (summer): 2006. 67-77.
- Blocher, Joseph. Institutions in the Marketplace for Ideas. 28, July 2007. 101-154.
- Reilly, John, Hull, Carter, and Barbara Allen. IRC 501(c)(4) Organizations. 2003.
- Fullinwider, Robert. "Affirmative Action." Stanford Encyclopedia of Philosophy. 2005.
- Lexicon. 2005. Cite Sciences. Dec 4, 2007
<http://www.citesciences.fr/lexique/definition1.php?idmot=399&iddef=889&rech_litre=&num_page=2&recho=&radiob=&resultat=&habillage=sactu&lang=an&id_expo=41&id_habillage=72>
- Investopedia. 2007. Forbes Media Company. Dec. 3, 2007
< <http://www.investopedia.com/university/economics/economics5.asp>>
- Jeroen, Wijk, and Walter Jaffe. Intellectual Property Rights and Agriculture in Developing Countries. Colombia: SantaFe De Bogota, 1996.