

The
**NONPROFIT
SECTOR IN
INTERNATIONAL
PERSPECTIVE**

STUDIES
IN COMPARATIVE
CULTURE
& POLICY

Estelle James

YALE STUDIES ON NONPROFIT ORGANIZATIONS

**THE NONPROFIT SECTOR IN
INTERNATIONAL PERSPECTIVE**

YALE STUDIES ON NONPROFIT ORGANIZATIONS

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Series Foreword

This volume and its siblings, composing the Yale Studies on Non-profit Organizations, were produced by an interdisciplinary research enterprise, the Program on Non-Profit Organizations, located within Yale University's Institution for Social and Policy Studies.¹ The Program had its origins in a series of discussions initiated by the present author in the mid-1970s while serving as president of Yale. These discussions began with a number of Yale colleagues, especially Professor Charles E. Lindblom, Director of the Institution, and Professor John G. Simon of the Law School faculty. We later enlisted a number of other helpful counselors in and out of academic life.

These conversations reflected widespread agreement that there was a serious and somewhat surprising gap in American scholarship. The United States relies more heavily than any other country on the voluntary non-profit sector to conduct the nation's social, cultural, and economic business—to bring us into the world, to educate and entertain us, even to bury us. Indeed, the United States can be distinguished from all other societies by virtue of the work load it assigns to its “third sector,” as compared to business firms or government agencies. Yet this nonprofit universe had been the least well studied, the least well understood aspect of our national life. And the nonprofit institutions themselves were lacking any connective theory of their governance and function. As just one result, public and private bodies were forced to make policy and management decisions, large and small, affecting the nonprofit sector from a position of relative ignorance.

To redress this startling imbalance, and with the initial assistance of the late John D. Rockefeller III (soon joined by a few foundation donors), the Program on Non-Profit Organizations was launched in 1977. It seeks to achieve three principal goals:

1. to build a substantial body of information, analysis, and theory relating to non-profit organizations;

¹ The sharp-eyed editors at Oxford University Press requested that we explain the presence of an intrusive hyphen in the word “Non-Profit” in the Program's title, and suggested that the explanation might be of interest to this volume's readers. The explanation is simple: At the Program's inception, it adopted the convention, in wider currency than it is today but even at that time incorrect, of hyphenating *non-profit*. Since then the Program has mended its ways wherever the term *nonprofit* is not used as part of the Program's title. But in the Program's title, for reasons both sentimental and pragmatic, the hyphen remains, as a kind of trademark.

2. to enlist the energies and enthusiasms of the scholarly community in research and teaching related to the world of nonprofit organizations; and
3. to assist decision makers, in and out of the voluntary sector, to address major policy and management dilemmas confronting the sector.

Toward the first and second of these goals the Program has employed a range of strategies: research grants to senior and junior scholars at Yale and at forty-one other institutions; provision of space and amenities to visiting scholars pursuing their research in the Program's offices; supervision of graduate and professional students working on topics germane to the Program's mission; and a summer graduate fellowship program for students from universities around the country.

The Program's participants represent a wide spectrum of academic disciplines—the social sciences, the humanities, law, medicine, and management. Moreover, they have used a variety of research strategies, ranging from theoretical economic modeling to field studies in African villages. These efforts, supported by fifty foundation, corporate, government, and individual donors to the Program, have gradually generated a mountain of research on virtually every nonprofit species—for example, day-care centers and private foundations, symphony orchestras and wildlife advocacy groups—and on voluntary institutions in twenty other countries. At this writing the Program has published 100 working papers and has sponsored, in whole or in part, research resulting in no fewer than 175 journal articles and book chapters. Thirty-two books have been either published or accepted for publication. Moreover, as the work has progressed and as Program-affiliated scholars (of whom, by now, there have been approximately 150) establish links to one another and to students of the nonprofit sector not associated with the Program, previously isolated researchers are forging themselves into an impressive and lively international network.

The Program has approached the third goal, that of assisting those who confront policy and management dilemmas, in many ways. Researchers have tried to design their projects in a way that would bring these dilemmas to the fore. Program participants have met with literally hundreds of nonprofit organizations, either individually or at conferences, to present and discuss the implications of research being conducted by the Program. Data and analyses have been presented to federal, state, and local legislative and executive branch officials and to journalists from print and electronic media throughout the United States to assist them in their efforts to learn more about the third sector and the problems it faces.

Crucial to the accomplishment of all three goals is the wide sharing of the program's intellectual output not only with academicians but also with nonprofit practitioners and policymakers. This dissemination task has been an increasing preoccupation of the Program in recent years. More vigorous promotion of its working paper series, cooperation with a variety of non-

academic organizations, the forthcoming publication of a handbook of research on nonprofit organizations, and the establishment of a newsletter (published with increasing regularity for a broad and predominantly non-academic list of subscribers) have all helped to disseminate the Program's research results.

These efforts, however, needed supplementation. Thus, the program's working papers, although circulated relatively widely, have been for the most part drafts rather than finished papers, produced in a humble format that renders them unsuitable for the relative immortality of library shelves. Moreover, many of the publications resulting from the Program's work have never found their way into working paper form. Indeed, the multidisciplinary products of Program-sponsored research have displayed a disconcerting tendency upon publication to fly off to separate disciplinary corners of the scholarly globe, unlikely to be reassembled by any but the most dogged, diligent denizens of the most comprehensive of university libraries.

Sensitive to these problems, the Lilly Endowment made a generous grant to the Program to enable it to overcome this tendency toward centrifugality. The Yale Studies on Nonprofit Organizations represent a particularly important part of this endeavor. Each book features the work of scholars from several disciplines. Each contains a variety of papers, many unpublished, others available only in small-circulation specialized periodicals, on a theme of general interest to readers in many regions of the nonprofit universe. Most of these papers are products of program-sponsored research, although each volume contains a few other contributions selected in the interest of thematic consistency and breadth.

Thus, the present volume, edited by Estelle James, professor of economics at the State University of New York at Stony Brook, deals with nonprofit sectors outside the United States, in both the industrialized and the less developed countries. The papers assembled here reflect growing international interest among scholars and policy makers in the potential contribution of nonprofit organizations to the solution of thorny social and economic dilemmas. Together, they examine and explain the varying contours and roles of nonprofit sectors throughout the modern world.

As the reader will already have observed, I do not write this foreword as a stranger. I am very much a member of the family, someone who was present at the creation of the Program of Non-Profit Organizations and continues to chair its Advisory Committee, and who also serves Oxford as Master of University College. What this extended family is doing to advance knowledge about the third sector is a source of considerable satisfaction. From its birth at a luncheon chat more than a decade ago, the Program on Non-Profit Organizations has occupied an increasingly important role as the leading academic center for research on voluntary institutions both in America and abroad. And now the publication by Oxford University Press of this volume and the other Yale Studies on Non-profit

Organizations enlarges the reach of the Yale Program by making its research more widely available within the scholarly community and to the larger world beyond.

London

Kingman Brewster

Preface

This book draws together papers written by scholars of many different nationalities and disciplines, depicting the operations of the nonprofit sector in a variety of industries and countries. Despite this diversity, I believe that a general pattern of nonprofit behavior does indeed emerge, as described in the Introduction to the book.

Research on nonprofit organizations in the United States has proliferated over the past decade, as documented by the other volumes in this series emanating from the Program on Non-Profit Organizations at Yale University. It is less well known but nonetheless true that this has been a burgeoning area of research in other countries as well. Upon further thought, this confluence of interests is not surprising since it reflects a common set of forces that we all face: increasing social wants, scarce public resources, and a perception that government bureaucracies do not always provide the best solutions to pressing societal problems. In this context, nonprofit organizations are seen, both by researchers and policymakers, as an alternative institutional form that may work in situations where government and for-profit firms have failed.

Researchers and policymakers then, have similar motivations to explore the operations of the nonprofit sector. However, with most publications focusing on the American scene, they have had no single source to which to turn in order to find out about the nonprofit sector in other countries. Such international comparisons are invaluable as a source of ideas about alternative options and as a laboratory for investigating how well real world experiments have worked. But in fact, researchers in diverse countries often carry out their studies in isolation, not knowing of related work being done a few hundred miles away. The present volume is intended to break down this isolation and thereby facilitate the sharing of ideas.

All of us who have studied the nonprofit sector over the last few years owe a great debt to Yale's Program on Non-Profit Organizations (PONPO), directed first by John Simon and then by Paul Dimaggio. By providing seed money and a "home" for scholarly interaction, PONPO has stimulated work in this area both at Yale and at many other universities. I particularly appreciate the encouragement, advice, and support PONPO has given my work on the economics of nonprofit organizations and private education. I also wish to thank the Lilly Endowment Incorporated for its financial support of this volume and the series in which it is included.

I began assembling this volume while I was a fellow at the Netherlands

Institute of Advanced Study, for whose support I am grateful, and I completed it while a guest scholar at the Brookings Institution. I appreciate the typing and editorial assistance provided by Linda Josephs and Susanne Lane, at the final stage. My hope is that this volume will prove interesting enough to stimulate further work on the nonprofit sector from a comparative international perspective. Much remains to be discovered and analyzed.

Washington, D.C.
May 1988

E.J.

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Contributors

Helmut K. Anheier is Assistant Professor of Sociology at Rutgers University. He holds a Ph.D. from Yale, where he was also associated with the Yale Program on Non-Profit Organizations. His research interests focus on the nonprofit sector in European and African countries. He is currently coediting a volume on nonprofit organizations in comparative perspective and writing a book on nongovernment organizations in Africa.

Christoph Badelt is Associate Professor, University of Economics, Vienna, Austria, and was previously Visiting Associate Professor, University of Wisconsin, Madison. He has worked broadly in the areas of social policy, public finance, and the economics of nonprofit organizations. His major publications include *The Economics of Volunteer Labor and Market Incentives in the Public Sector*.

Hugo Fruhling is a Professor at the Programa de Derechos Humanos of the Academia de Humanismo Cristiano and researcher at the Inter-American Institute of Human Rights. He has edited *Represion Politica y Defensa de los Derechos Humanos* and is the author of numerous articles about human rights in Chile.

John Hills is Codirector of the Welfare State Programs at the London School of Economics, where his current research is concerned with housing finance. He has previously undertaken research at the Institute for Fiscal Studies, London, on the U.K. taxation system and has worked as an economic adviser on housing and taxation issues to the governments of Botswana, the United Kingdom, and Zimbabwe. One of his major publications was *Savings and Fiscal Privilege*, and he has published numerous papers on housing finance.

Ellen Jane Hollingsworth is Research Scientist, University of Wisconsin, Madison. She has written many articles and books about social policy and her recent work focuses on health policy.

Rogers Hollingsworth is Professor of History and Sociology and Chairperson of the Program in Comparative History at the University of Wisconsin, Madison. He has written numerous articles and books in the area of social policy.

Estelle James is Professor of Economics at the State University of New York, Stony Brook. She was previously Chairperson of the Economics Department and Provost of Social and Behavioral Sciences at Stony Brook. She has coauthored three books: *Hoffa and the Teamsters: A Study in Union Power*; *The Nonprofit Enterprise in Market Economies*; and *Public Policy and Private Education in Japan*. She has also written numerous articles on the economics of education, the economics of nonprofit organizations, and other topics in applied welfare theory.

Ken Judge is currently Director of the King's Fund Institute for Health Policy Analysis. Previously he was lecturer at Bristol University and Deputy Director of the Personal Social Services Research Unit at the University of Kent. His publications include *Rationing Social Services* and *Charging for Social Care*. He is Chairperson of the Camden and Islington Family Practitioner Committee.

Martin Knapp is a Reader in the Economics of Social Policy and Deputy Director of the Personal Social Services Research Unit, University of Kent at Canterbury. He has written books on *The Economics of Social Care*; *Care in the Community*; and *Old People's Homes and the Production of Welfare*. He is currently coediting *Pluralism in Practice: Yearbook of Voluntary Action Research 1989* and writing a book on the role of the government sector in supporting nonprofit services in Britain.

Ralph Kramer is a Professor in the School of Social Welfare at the University of California, Berkeley. He is the author of numerous articles on citizen participation, social planning and the voluntary sector. His books include *Voluntary Agencies in the Welfare State*; *Participation of the Poor*; and *Community Development in Israel and the Netherlands*.

Daniel C. Levy holds a joint appointment in Educational Administration and Policy Studies and Latin American studies at the State University of New York, Albany. He is the author of *Higher Education and the State in Latin America: Private Challenges to Public Dominance*, as well as two books on Mexico (one coauthored). He has long been affiliated with PONPO and edited a book (*Private Education*) in Oxford's nonprofit series. Most of his scholarly articles also deal with politics and education.

J. Mark Davidson Schuster is Associate Professor of Urban Studies and Planning at the Massachusetts Institute of Technology. He was a postdoctoral fellow in the Research Division of the French Ministry of Culture. His research interests focus on government policy vis-à-vis culture and environmental design. His publications include *Patrons Despite Themselves: Taxpayers and Arts Policy* and *Supporting the Arts: An International Comparative Study*.

Wolfgang Seibel is Assistant Professor of Administrative Science at the Department of Economics at the University of Kassel, Federal Republic of Germany. He received his Master's Degree in Administrative Science at the Hochschule für Verwaltungswissenschaften Speyer, FRG, and his Doctor's Degree in Economics and Social Science at the University of Kassel. He is author of three books and numerous articles on organizational problems in the nonprofit sector and technology policy in public administration. His current research includes an analysis of the third sector in comparative perspective (France and Germany) and a history of German public administration during the Nazi period.

Brian H. Smith holds the Charles and Joan Van Zoeren Chair in Religion, Ethics and Values at Ripon College, Ripon, Wisconsin. He formerly taught Political Science at the Massachusetts Institute of Technology. His research interests include religion and political development in the Third World and the role of nonprofit institutions in North–South relations. His books include *The Church and Politics in Chile* and *The Politics of International Charities*.

Jillian Smith is Head of Information Technology at Save the Children Fund. Previously, she was Research Associate at the Personal Social Services Unit, University of Kent at Canterbury, and Research Officer at the London School of Economics.

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**THE NONPROFIT SECTOR IN
INTERNATIONAL PERSPECTIVE**

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Introduction

ESTELLE JAMES

The essays in this book are about the nonprofit sector in a diverse set of countries and industries, written by scholars from a variety of disciplinary backgrounds. Originally they were written as independent pieces, not as part of an integrated volume. What can we learn from this diversity? Do we find a random assortment of observations or does a meaningful pattern emerge? And if it does, what light does this throw on the theory of nonprofit organizations (NPOs) and on public policies that exist, or should exist, toward the nonprofit sector?

I believe that these essays do indeed provide us with a coherent picture of the nonprofit sector and with insights into the causes and consequences of institutional choice. Much nonprofit theory and discussions of related public policies have been developed by American scholars with the American situation in mind, as set forth in earlier volumes of this series. These theories are then presented as a generic model of nonprofit origins and behavior. But the American situation may be very special, rather than generic, in certain respects.

Nonprofit organizations (i.e., organizations that are constrained from distributing a monetary profit to their members) do indeed exist in most societies, although they are called by many different names—nongovernmental organizations, private voluntary organizations, community associations, and so on.¹ However, their characteristics in other countries may be quite different from those in the United States. By drawing on the experience of a large set of countries we can avoid the trap of formulating a “general theory” that only fits a particular case. At the same time, the elements of a truly general theory begins to emerge, inductively.

INTERNATIONAL RESEARCH, NONPROFIT THEORY, AND PUBLIC POLICY ISSUES

Imperfect Information and Trustworthiness

For example, an important line of economic theories about NPOs views for-profit enterprises as the major institutional competitor to nonprofits and attempts to draw the boundary line between the two.² These theories stress that NPOs will be found in situations where consumers do not have enough information to evaluate the quality of a product and therefore must place their trust in the enterprise that is producing it. Consumers may be more willing to trust nonprofit organizations, where, because of the non-distribution constraint, managers do not have the same monetary incentive to downgrade quality that profit-making managers would have. For similar reasons, potential donors (of money or volunteer labor) are more willing to donate to nonprofit organizations, which are deemed more likely to use donations for the intended purpose. Therefore, such organizations develop where trustworthiness is important because of asymmetrical information between consumers and producers or because of monitoring problems faced by donors. Examples are frequently given from the fields of education, health, and culture.

Some Unanswered Questions

Although this kind of theory may help explain the American situation, where private funding from fees and philanthropy are a major source of nonprofit revenues and therefore for-profit organizations would seem to be the major institutional competitor, they do not address some of the major questions that arise when we look at other countries. Four such questions are particularly important.

First, we observe that NPOs in many countries are in competition with services provided by government, particularly local government, not with for-profit firms. Therefore, we need to draw the boundary line between the private nonprofit and public sectors even more than that between NPOs and for-profit organizations; we must explain why NPOs produce the same goods as local governments and why government production is used in some cases, nonprofit production in others.

Second, we observe that, although government is a substitute for NPOs in production, it is usually a complement in financing. Indeed, from a worldwide point of view private philanthropy is insignificant whereas government subsidies are a crucial source of funds to nonprofit organizations—and this is particularly the case in countries where the nonprofit sector is large. Therefore, we need to explain why governments contribute substantial resources to NPOs and explore some of the problems that this creates.

Third, we observe that, almost universally, the major founders of NPOs

are organized religions or other ideological groups rather than individual entrepreneurs. Surely this curious empirical fact must be incorporated into a general theory of nonprofit origins.

Finally, we observe that the size of the nonprofit sector varies widely from one country to another and even from one region to another within a given country. It seems unlikely that informational asymmetry and monitoring problems vary so widely across geographical areas; some other explanation is therefore needed for the existence and distribution of NPOs.

I believe that these simple empirical observations and the questions they raise, all of which are well illustrated by the essays in this volume, can help us to develop an alternative theoretical paradigm, and suggest policy implications for this paradigm. In this alternative general theory, the growth of the nonprofit sector depends on consumer demand and government demand for its services and on the supply of nonprofit-motivated entrepreneurship. Each of these elements will be discussed in turn.

Consumer Demand: Excess and Differentiated Demand

Our analysis of consumer demand starts with the observation that many of the services provided by NPOs are quasi-public goods; that is, goods that yield both private and social benefits and therefore can be funded either by the private or public sectors. Government services, when available, typically have a competitive (price) advantage in the marketplace because they are tax-financed. The demand for private services can then be viewed as a market response to situations where the government does not produce as much service or the precise kind of service that people want; people are then willing to pay for the desired service and fees are a feasible financing method. These elements—of excess demand and differentiated demand—were first mentioned by Weisbrod³ and have been developed further in my work on the growth of private education (see the chapters on Sweden, Holland, and Japan in this volume).⁴ Therefore the private nonprofit sector would be expected to be larger in cases where government production is limited (e.g., this explains private schools in developing countries) or where tastes are differentiated, sometimes along quality lines but more commonly stemming from deep-seated cultural (religious, linguistic) heterogeneity (e.g., this explains private schools in modern countries). Chapters in this volume by James, Levy, Hollingsworth and Hollingsworth, Badelt, and Anheier all present confirming evidence about the importance of excess and differentiated demand from consumers in explaining the growth of the nonprofit sector.

Thus, NPOs can be thought of as organizations tied to interest-based communities that are an alternative institutional form to geographical-based communities for providing quasi-public services.⁵ In particular, a social choice is often made between the nonprofit sector and local governments as the chief producer of education, health, and social services. Local governments provide variety and choice regarding bundles of quasi-public goods,

all tied to the consumers' place of residence, but NPOs provide this choice for each good separately, without requiring movement to another geographic area. Chapters by James, Hollingsworth and Hollingsworth, Judge and Smith, Hills, and Badelt all depict this social choice between the local government and private nonprofit institutional form for delivering services.

Entrepreneurship: Religion and Ideology

My analysis of "nonprofit entrepreneurship" starts with the observation that many NPOs are founded by religious and other ideological organizations, groups that are supplying services to meet (or to create) the heterogeneous demand just discussed. These organizations use the nonprofit form because their objective is to maximize faith or adherents rather than monetary profits. They consequently choose to enter those industries (such as education or health) that foster taste formation, socialization, and group identification. (These services, by their very nature, are also quasi-public goods, allocated to individuals but of concern to the group as a whole.) Because the religious "parents" can subsidize their nonprofit "offspring" with venture capital and volunteer labor, they have a cost advantage over for-profit firms and can even compete effectively with government production. We would therefore expect NPOs to be concentrated in geographic areas with strong independent religious groups (e.g., missionaries, caste societies, dissenting churches) competing for clients, currently or in the recent past. The important role of religious competition (and to a lesser extent the role of other ideological groups such as political parties) in determining the supply of nonprofit entrepreneurs is documented in the chapters by James, Levy, Judge and Smith, Badelt, Smith, Anheier, and Fruhling.

Government Demand

Our explanation of "government demand" starts with the observation that, once nonprofit organizations have been started, funding for their activities comes heavily from the government, in the form of grants, purchase of service, or implicit tax subsidies. Although philanthropy and fee financing play a key role on the American nonprofit scene, government subsidies are the major source of revenue in most countries, especially in advanced industrial states. (Even in the United States the government contributes over one-quarter of nonprofit revenues and more if implicit tax subsidies are taken into account.⁶) Funding responsibility is often vested in the government, even when production responsibility has been delegated to NPOs. We would then expect the nonprofit sector to be larger where government subsidies are larger and granted more widely. Chapters by James, Judge and Smith, Badelt, Seibel, Knapp, Kramer, Hills, and Smith all stress the importance of government funding.

This leads immediately to the key policy questions: in what situations

will the government delegate production responsibility for quasi-public goods? When does it choose nonprofit rather than for-profit organizations? And what difference does this delegation make? This is different from the usual question in the area of public finance, which investigates the types of goods government funds for political reasons or should fund for efficiency reasons. Here we ask, given the decision to fund, under what conditions are NPOs used to deliver the service?

One common argument for delegating production to private organizations is that they operate at lower cost than government agencies, may charge fees for service, and (if NPOs) benefit from donations, thereby imposing a lower burden on the public treasury than would full public production. Ironically, private organizations may be used to bypass the bureaucracy, red tape, and civil service rules that government has imposed on itself, which have the effect of raising costs and possibly reducing quality of service. However, the cost-reducing rationale, although plausible in the short run, may be more questionable in the long run, as fees and donations fall, professional staff members replace volunteer labor, and government standards are imposed as subsidies grow. For a fuller discussion of relative costs and how they may be affected by subsidies see the chapters by James, Levy, Hollingsworth and Hollingsworth, Knapp, Hills, Badelt, and Smith.

Another rationale is simply that policymakers sometimes face political pressure to provide services differentiated by religion or language, and delegation of responsibilities to the private sector is a convenient way to satisfy these pressures. Since the pressures for differentiation and delegation typically come from politically powerful religious organizations, it is not surprising that the subsidies are restricted to nonprofit organizations in these cases. (See the chapters by James, Badelt, and Kramer).

More generally, once the decision is made to use the private sector, nonprofit organizations rather than profit-making organizations are often chosen in situations where the final product is difficult to define and measure, many small enterprises are involved (e.g., schools or nursing homes), and monitoring each separately would be a costly endeavor. Requiring nonprofit status is an easier alternative, affording some assurance that the subsidy will indeed be spent on the intended purpose; the danger of political scandal due to misappropriation of funds may be less when the distribution of monetary profits is ruled out. In this sense, asymmetric information and trustworthiness may enter into the choice of nonprofit organizations after all—but as a result of government behavior rather than the behavior of many small consumers and donors.

A number of chapters in this volume suggest that private nonprofit production is combined with public funding for “political” rather than purely economic motives. Thus, the English Conservative ideology in favor of private enterprise and voluntary action leads to favorable tax treatment of donations (see the chapter by Schuster) and the Labor ideology leads to less contracting out of social services (in the chapter by Judge and Smith);⁷

the political battle between the central government (Conservative) and local governments (many of them Labor) leads to growing reliance on housing associations (as analyzed in the chapter by Hills); the Senegal government uses NPOs to bypass a powerful opposing group of marabouts (in the paper by Anheier) whereas the Austrian government fosters market sharing among NPOs with different political affiliations (in the chapter by Badelt); the nonprofit sector is used in Germany to create the illusion of doing something about new social problems that are basically insoluble (according to the chapter by Seibel); and European NPOs become conduits of development aid to avoid the appearance of foreign encroachment or to maintain communication with “opposition” groups (in the chapter by Smith). In all these cases, consumers and their preferences are relegated to the background. Instead, the government is seen to be engaged in a delicate balancing act in which it wishes to strengthen its friends and weaken its enemies, to act unofficially and maintain “deniability” and it can do so more subtly by funneling its resources through supposedly neutral organizations that turn out to be not completely neutral, upon closer examination.

Finally, NPOs serve quite another political function—as informational and advocacy groups aiding the government (see the James chapter on Sweden) or as opposition groups defending human rights against authoritarian regimes (see the Fruhling chapter on Chile). These are public goods that by definition must be provided by nongovernment “communities of interest,” such as the nonprofit sector.

Accountability and Regulation

In a democratic system there may be a conflict between public funding and private management. How does the government manage to hold NPOs accountable for the funds they receive? What strings, if any, go with these funds? Do the regulations imposed seriously alter the nature of nonprofit services? Whereas consumer demand, government demand, and the supply of religious entrepreneurship are hypothesized to determine the size of the nonprofit sector across countries and industries, the nature of government regulations determines how distinctive it remains or whether, as it grows larger and more heavily subsidized, it also becomes more like the public sector. The accountability and regulatory issues are discussed at length by James, Kramer, Hills, Seibel, Smith, and Anheier.⁸

Needed: A Theory of State Action

This discussion strongly suggests that a comprehensive theory of nonprofit organizations first requires a theory of the state. The state, with its powers of compulsory taxation, can unilaterally determine the quantity and variety of goods it will supply at low price and therefore the consumer demand that will remain for a private supplement or substitute. The state also de-

termines the subsidies it will pay the nonprofit sector, the services it will contract out and the regulations to which nonprofit enterprises are subsequently subject. In the extreme, the state can proscribe NPOs, nationalize them, or prohibit consumers from using their services.

How *does* the state make these decisions in a positive sense? And, from a normative point of view, how *should* the state make these decisions, which influence institutional choice? The economic (class) interests of the ruling group, the political power of religious organizations, and the nature of the electoral system play an important role here; but these elements have yet to be merged into a single generally accepted theory of state behavior. These chapters show, however, that, in a nontotalitarian society, for every state action there is a private reaction and these private reactions in turn alter the consequences of the initial state action (see the chapters by James, Seibel, Hills, and Anheier). Thus, while the nonprofit sector flourishes at the will of the government, its existence also limits the power of the state, in democratic societies.

SUMMARY OF THE CHAPTERS

With these general themes in mind we move to a more detailed summary of the chapters in this volume. Broadly speaking, Part I deals with the nonprofit sector as a market response; that is, with consumer demand and private supply. Part II deals with the causes and consequences of government demand; that is, issues associated with public funding and accountability. Part III deals with the special problems of economic development and human rights. It is perhaps not surprising that the market response examples are drawn from the fields of education and health, where the private rate of return to consumers is often high, whereas the government demand examples are drawn from the social services, which are explicitly aimed at those who are unable to pay. However, the reader will quickly notice a great deal of overlap among the chapters in these three parts; these themes cannot in fact be neatly separated.

Nonprofit Organizations in Sweden and Holland: Differentiated Demand

The paper by Estelle James on the nonprofit sector in Sweden, as compared to that in Holland, illustrates many of the points in the theory just presented. Differentiated consumer tastes about quasi-public services, availability of nonprofit entrepreneurship, and government subsidies all play an important role—albeit in a negative sense. Sweden is one of the most homogeneous and egalitarian countries in the world, with an established church that faces little competition from other religions, and Swedish NPOs receive few government grants or tax privileges for producing services. Therefore we would expect—and indeed we find—that Sweden has only a small nonprofit sector; geographically based communities (local govern-

ments) have won out over interest-based communities (NPOs) as the mechanism for delivering quasi-public services. In contrast, strong religious cleavages in Holland have led to a system in which the government finances but the (religious) NPOs produce most education, health, and social services.

Besides investigating the conditions that determine whether the non-profit sector is large or small, James investigates the behavior of Swedish NPOs in those areas where they do (or did) exist: private secondary schools for girls prior to 1927 (when girls were admitted to state secondary schools); the few private schools found today; and adult education provided by non-profit associations during the 1960s and 1970s. She finds that the private sector does indeed respond to a demand that is not satisfied by government production; that in these cases minority religions play an important entrepreneurial role, but in Sweden this is supplemented by other ideological organizations (labor unions and political parties); and that currently NPO production flourishes only in those areas—sports, culture, and adult education—where it is sanctioned by government policy and supported by subsidies.

Those NPOs without subsidies survive by keeping expenses low, primarily by choosing a low cost product mix and by using low-wage or volunteer labor; but once government subsidies are instituted wages and other costs rise rapidly. Some of these observations are supported by other studies in this volume (Levy, Hollingsworth and Hollingsworth, Knapp, and Hills), which bear on the issue of whether NPOs are more cost-effective than government agencies. To the extent that their cost advantage comes from the use of volunteers, it may not be maintained in the long run if nonprofits financed by government subsidies become the accepted way of delivering public services.

Provision of services by NPOs often leads to social segmentation along cultural or ideological lines, given their source of demand and entrepreneurship. However, it need not stratify along economic (class) lines. Indeed, in Holland and Sweden NPOs and government agencies serve much the same socioeconomic mix; contrary to the American situation, private schools and other services do not “cream” and are not “elite.” The factors that systematically determine relative quality and prestige will be discussed in several other chapters in this volume (see the James chapter on Japan, Levy, Hollingsworth and Hollingsworth, and Hills).

A final word is needed about the political function of NPOs in Sweden. As “interest groups” they play an important informational and advocacy role, representing their constituencies (immigrants, the handicapped, pensioners, youth) on government boards that study issues, formulate legislation, and administer the resulting laws. And their administrative staff is subsidized for doing so. In this way they influence the provision of public services even if they do not produce much themselves. This institutionalized role of NPOs within the Swedish government is a sharp contrast to their opposition role in Chile (see the Fruhling chapter), but in both cases they are a democratizing instrument.

Private Education in Japan: Excess Demand

Whereas the chapter on Sweden and Holland focuses on the role of differentiated demand in stimulating nonprofit production, the chapter by James on Japan depicts excess demand as the driving force behind the private sector. A theoretical model is presented in which excess demand for education and other quasi-public goods exists when the quantity supplied by the public sector does not satisfy the full demand. The “leftover” consumers try to purchase the service in the private market. Supply-side (religious) variables then explain how large the private sector grows to meet this demand and why it often takes the nonprofit form.

Although excess demand in education is usually characteristic of developing rather than developed countries, James argues that it applies also to Japan, where public academic secondary schools and universities do not provide a place for everyone. She demonstrates statistically that the private educational sector is highest in prefectures (states) with the greatest excess demand and supply of nonprofit entrepreneurs; that is, in prefectures with a high per capita income, a low supply of public school places, and early Christian missionary activity in starting private schools. The quantity–quality trade-off is also important: prefectures that spend more on quality have less money to spend on quantity, hence have a smaller public and a larger private sector.

Much of this result hinges on the fact that rich and poor prefectures have similar resources to spend on public goods, because of the method of financing these goods in Japan. Although local taxes based on local income are higher in rich prefectures, they get less “shared tax,” which is paid by the central government to poor prefectures as a redistributive device. The poor prefectures, which tend to be rural, have disproportionate political power, which enables them to get the resources to provide education and other quasi-public goods at little cost to themselves; and they support the conservative ruling party, the LDP, in return. As an ironic consequence, those prefectures that are the most conservative have a small private educational sector and a large public sector. Also benefiting from this system and supporting the LDP are the upper classes in rich prefectures, who do not have to pay the higher local taxes that would support a larger public system. Therefore, Japan has the essential components of a theory of collective action, in which the size and nature of the public sector reflects the interests of the ruling group, while the private sector develops to accommodate those who are left out or who want a very different kind of service.

Private Higher Education in Latin America: Causes and Comparisons

Daniel Levy outlines the growth of higher education in Latin America, where private universities now enroll one-third of the total student body. He sees three sequential waves of private university growth, most of which occurred in the period after 1930.

First came the wave of religious (Catholic) universities, created by the church when it found that it could not control the public ones, after the colonial era ended. Second came the elite private universities, which developed in those countries (e.g., Venezuela and Ecuador) where the public sector became increasingly large and nonselective. Since entering students are a major input into the educational production function, diminishing selectivity decreased the final academic output as well as the prestige of public institutions, leaving a gap for the private sector to fill.

The third wave was a response to excess demand, particularly in those countries (such as Brazil) where the public sector remained small and selective. Excess-demand-driven private sectors are the largest but also the least prestigious; they add to the human capital of the country at low cost to the public treasury but often with low quality as well.

This illustrates the point that the private sector is not always the elite sector, as we in the United States tend to think; but neither is the public-private pecking order a random one. In situations where public education remains limited, competitive, and selective, it also remains elite (as in the earlier chapter on Japan) and a private sector develops to accommodate the leftovers; while the opposite is true in situations where the public sector becomes more open and egalitarian. In most Latin American countries, except for Brazil, public education has apparently emphasized quantity over quality during the last quarter century, so the private sector has become increasingly the elite one.

Levy contrasts public and private universities with respect to fields of study and source of finance. Private universities are largely financed by fees, with only Catholic universities receiving significant state subsidies and only a few prestigious universities benefiting substantially from domestic or international donations. Consistent with this financing picture, private universities are mainly teaching institutions, with little research activity, and concentrate on subjects such as social science and business administration rather than natural science, engineering, or medicine. One possible inference is that they have a limited conception of their role, leaving public universities with a broader set of social responsibilities. An alternative explanation is that they are compelled (by their financial sources) to concentrate on subjects whose production costs will be covered by fees paid by students on a voluntary basis; this usually means low-cost, low-capital subjects with a high rate of return in the labor market. Those private universities that receive government subsidies or private donations are more likely to undertake prestigious but loss-making activities such as research and laboratory sciences; their set of outputs looks more like that of public universities.

The complex issue of socioeconomic distribution of the student body is also discussed by Levy. In this analysis it becomes clear that enrollment by the lower classes can be limited by academic or price barriers. The former are found in all selective universities, whether public or private; the latter are found mainly in private universities. Therefore, the public sector will

not necessarily draw from a broader economic base than the private sector; indeed, the opposite may be the case where the public sector is small and selective, as in Brazil. In that situation, the upper classes enjoy the dual benefits of prestigious higher education, financed by the public treasury. On the other hand, the most income-biased institutions are likely to be those where academic and price barriers to admission coexist—as in the elite private universities in other Latin American countries.⁹

Public versus Private Hospitals in England and Wales

Shifting now to the health industry, J. Rogers Hollingsworth and Ellen Jane Hollingsworth trace the historical development of public and voluntary (nonprofit) hospitals in England and Wales prior to the National Health Service. Consistent with the framework set forth earlier in this Introduction, voluntary hospitals played a major role in the nineteenth and early twentieth centuries, financed largely by donations of money and time, before a consensus developed on the need for a broad-based, publicly funded hospital system. When the decision was taken after World War I, to increase public expenditures and, after World War II, to institute social insurance, this could have taken the form of grants and insured fees for service paid to private hospitals, many of which already existed, as in the United States and Holland, but instead there was a shift to public production under local government administration. The Hollingsworths do not fully analyze the reasons for this social choice, but it parallels the decision about primary and secondary education made much earlier in England. Presumably, the central government preferred direct hierarchical control of the health system and felt it could get this through local government administration, whereas its control over voluntary hospitals, particularly over such questions as location, size, and target population was deemed more indirect and tenuous. We shall return to this question when we discuss the Hills paper, since the central government in the United Kingdom now seems to be making the opposite choice in some service areas.

When public and voluntary hospitals coexisted, as in the 1930s, what were the differences between them? The Hollingsworths show that voluntary hospitals tended to be smaller; had more nurses, doctors, technical staff, and specialists per bed than public hospitals; yet operated at a very similar cost per patient week. Their greater cost effectiveness stemmed in part from their access to volunteer or low-salaried workers, characteristic of many NPOs; whether this cost advantage could have been retained in an enlarged government funded but privately managed hospital system is dubious but will never be known. (For further elaboration of cost effectiveness, see the chapter by Knapp.)

The two sectors also served a very different patient mix, the public hospitals treating more of the poor, the chronically ill, and the aged. This difference in patient mix helps explain why nurses and doctors were willing to work for lower pay in the voluntary sector (just as teachers work

for lower pay in private schools that have a preferred student body) and throws further doubt on whether the lower pay would remain in an enlarged system. It also greatly complicates the task of comparing outcomes in the two sectors.

However, to the degree that inputs per bed are a measure of quality, it appears that the public sector chose to produce quantity, leaving quality to the private sector. Clearly in England voluntary hospitals were the elite ones, serving the middle and upper classes, just as private universities do in many Latin American countries but in contrast to public–private rankings in countries such as Japan and Brazil. I would suggest that these divergent choices about public sector quantity versus quality should be analyzed as indicators of the distribution of political and economic power in these societies (see the James chapter on Sweden and the Levy chapter on Latin America).

Contracting Out of Social Services in England

Part II of this volume focuses on issues arising from government funding of the nonprofit sector. The first three chapters discuss the “political” reasons for using NPOs to deliver quasi-public services (consumer preferences play only a minor role here). The following chapters discuss some of the consequences for costs, quality, and accountability.

In contrast to the Hollingsworths’ paper, Ken Judge and Jillian Smith examine a situation where the British government has chosen to purchase social services from voluntary agencies rather than provide them directly. Practitioners often explain this by pointing to the traditional existence of voluntary organizations serving religious denominations, the access these organizations have to donations and volunteer labor, and the flexibility and variety provided through the nonprofit sector.

However, in their econometric analysis of differences across British localities, Judge and Smith found these variables to be relatively unimportant. Instead, Labour party control of the local authority has the most consistent (and negative) effect on “contracting out.” This is consistent with the point just made that different methods of service provision benefit different groups, and therefore the policy choice depends on the interests of the group having dominant political power.

Judge and Smith also measured the “Catholic” effect as an index of religious heterogeneity and found it to be positive although statistically weak. This contrasts with results I obtained elsewhere, which demonstrate that religious heterogeneity and the presence of a large Catholic minority go far toward explaining the geographic distribution of NPOs in education in many countries.¹⁰ The divergent results obtained here illustrate the inherent difficulty in modeling and quantifying the complex religious heterogeneity variable.

Nonprofit Organizations in Austria: Cost Saving?

The nonprofit sector in Austria is small but of growing interest to politicians. According to Christoph Badelt, much of the recent rhetoric has the hidden agenda of shifting costs from the public to the private sectors, by drawing on fees and volunteer labor. Nonprofit enterprises, it is believed, have access to a different technology (more personalized, with greater commitment) than do government agencies, perhaps because they are not subject to the bureaucratic rules that government has imposed on itself; and this technology lowers their costs and raises their quality. The chapter by Knapp provides some evidence that public and private agencies do indeed use different technologies (also see the chapters by Levy and the Hollingsworths). But it appears that the savings in costs may be short run and limited. In the long run NPOs can be relied on for the large-scale delivery of social services only if they are heavily subsidized by government; and then they are likely to be subject to the same procedures and costs as government agencies (see Knapp on England and James on Sweden and Holland).

Badelt's description of the amount and distribution of volunteer labor supports this hypothesis. He finds volunteers to be heavily concentrated in the social services, where they exceed the paid labor force, and largely "informal" (i.e., engaged in helping relations among households, outside formal organizational structures). Such arrangements, which arise spontaneously in a community, may be quite efficient, with low opportunity and transactions costs. Formal nonprofit organizations, it seems, depend mainly on wage labor (albeit sometimes on low-paid, part-time labor). And one would expect them to depend on wage labor, paid at market rates, even more if their government-sanctioned responsibilities and related subsidies increased. Informal activities, on the other hand, may be difficult to coordinate and expand unless professional leadership is provided, and this in turn will raise their costs. These empirical findings underscore the limits on cost savings than can be achieved through shifts of responsibility to the nonprofit sector.

Mellow Weakness in the German Third Sector

Wolfgang Seibel draws an illustration from the German situation to argue provocatively that nonprofit organizations are used by politicians "not to do things better but to disguise better how poorly things are done." In developing this argument Seibel presents three case studies: of the "autonomous women's houses" (homes for battered women and their children); of the semipublic system of hospital funding that has tried, unsuccessfully, to place a lid on rapidly rising costs; and of the "workshops for handicapped persons" that attempt to reintegrate such persons into the labor market. In each case he documents their multiple goals and the conflict

between their ideology of autonomy, informality, and egalitarianism and their need for government funding, accountability, and continuity.

Although NPOs are sometimes criticized for their absence of formal hierarchical structures (as in government) and clearcut measurable goals (as in profit-maximizing firms), Seibel sees these very ambiguities as their *raison d'être*, as characteristics that allow them to serve a broader social purpose even if they are dysfunctional to the individual organization. This "organizational slack" enables NPOs to blur the issue of whether something has really been accomplished and, if not, who is to blame. It creates an illusion of problem solving, thereby helping to stabilize a political system where real solutions to serious problems often do not exist. By shifting the responsibility to NPOs, politicians escape the onus of their failure to solve problems that are basically insoluble. Therefore, the "mellow weakness" of NPOs is their special strength, allowing them to garner public funds and consequently to survive, despite their lack of professionalization and control.

Upon reflection, many of the organizations that Seibel is describing (e.g., the homes for battered women and workshops for handicapped persons) are similar to one of Badelt's categories: self-help and grassroots organizations that were set up to deal with "new" social problems. These are problems that are beyond the capability of individuals and their families to solve, but there is also no consensus that the government should provide the resources necessary to solve them. (Indeed, there may be no consensus on how they could be solved, even with resources.) This is the "excess demand" phase of nonprofit activity, when small groups or enterprises arise to fill the gap. Since social services are often aimed at low-income clients with limited capacity to pay, costs are covered by donations, volunteer or low-paid labor, and partial subsidy, in the hope that this will cause the problem to go away. These organizations display the characteristics of amateurism, altruism, solidarity, personal trust, and informality that provide the smokescreen about whether something is really going on, as described by Seibel.

In contrast are the formal organizations in Badelt's other categories, which deal with problems that are considered soluble and where a consensus exists for substantial funding by the government. These organizations have simply been delegated the task of delivering such services, often as a response to differentiated demand and lobbying by religious or political nonprofit suppliers. They are not the organizations with which Seibel is primarily concerned. They have become professionalized, bureaucratic, hierarchical, and accountable according to government prescription (see the chapters by James, Kramer, and Hills). In fact, they may resemble government agencies more than they do some of the fledgling groups in their own sector.

Thus, we find extreme diversity in organizational form within the nonprofit sector. Together with the different sources of demand and funding for nonprofit services go different organizational characteristics, which may

be functional given the nature of the problems faced at different stages. At least, this would be an interesting hypothesis to explore in future research.

Comparative Efficiency and Cost Effectiveness: Child Care in England

Because the political argument for supporting nonprofit organizations often rests on the assumption that they have access to different technologies and are more cost effective than government agencies, it is important to test this empirically. But, as discussed earlier, such tests are complicated by the different clientele of each sector, so that observed cost differentials may be due to these disparities in patient inputs or student inputs rather than to organizational behavior. The task for the analyst is to disentangle these two forces, a task requiring detailed data on client characteristics that often are not available.

Martin Knapp tackles the difficult issue of assessing relative efficiency in the public, nonprofit, and for-profit sectors, with particular reference to residential child care in England and Wales. Using a rich data set, Knapp estimates the cost function for children's homes run by local authorities and the fee function for homes run by for-profit enterprises, including child characteristics as explanatory variables. Both cost and fee functions are estimated for nonprofit homes; the difference between the two, the mark up, is usually negative, covered by philanthropic donations.

Knapp indeed finds that different production technologies operate in the three sectors, as indicated by the fact that somewhat different variables explain their costs (or fees). There is little evidence of economies or diseconomies of scale in the public or for-profit sectors, except at the extremes. But in nonprofit homes average costs rise monotonically with the size of the home. Apparently, smaller homes benefit from volunteer or low-paid labor, whereas the professionalism that comes with larger homes raises their expenses and reduces their cost advantage vis-à-vis the other sectors. This is similar to the results Knapp obtained earlier for day-care services for the elderly and to the observation in other countries that production by NPOs is cheaper chiefly because of the lower wages they pay. Once the lower wages and volunteers are eliminated, the cost disparity is greatly narrowed (see the James chapter on Sweden). Unfortunately, the absence of direct output measures makes it impossible to ascertain whether the wage-cost differential also implies a quality differential.

Although some patient characteristics always enter into cost and fee functions, the characteristics that matter differ across the three sectors. Specifically, in the two private sectors factors related to "difficult cases" raise costs whereas they do not raise costs in public homes. Is this evidence of organizational slack in the public sector, or is it an indication that local authorities do not provide enough resources to handle difficult cases and simply downgrade quality instead? In the absence of direct output measures, once again we do not have the answer to that crucial question.

Overall, for-profit homes are cheaper than nonprofit ones, and nonprofit homes (many of them associated with religious denominations) are cheaper than public homes. How much of this difference is due to differing technologies, and how much is due to differing child and home characteristics? Knapp separates out these factors by estimating what nonprofit costs would be, given their own technology (cost function), if they had the average characteristics of children and homes in the public sector. Conversely, he estimates what public costs would be, given their own technology, if they had average nonprofit sector characteristics. Significantly, standardizing for child and home characteristics does not narrow the disparity between the public and private sectors; the technology used by the private sector continues to produce cheaper services. It does, however, narrow the disparity between the nonprofit and for-profit sectors, suggesting that the latter have kept costs low partially by their selection of easy clients and cases.

On the basis of the evidence, contracting out residential child care in England, as an alternative to direct public production, currently does save the taxpayer money. However, Knapp questions whether this cost effectiveness will continue in the long run as the proportion of “difficult” children rises and the supply of motivated volunteers or quasi-volunteers (i.e., low-paid staff) correspondingly declines.

Autonomy, Regulation, and Accountability in Four Welfare States

Ralph Kramer analyzes some of the consequences for voluntary nonprofit social service agencies of their increasing dependence on government funds in four countries: the United States, England, Israel, and the Netherlands. In Holland, as discussed in the chapter by James, social services are usually delivered by voluntary organizations but with most costs covered by subsidies or social insurance; direct government production is relatively small. Together with the great expansion of the government budget over the past three decades has come an expansion of service, an even greater increase in costs, and a shift from volunteer to professional labor. In contrast, in England public production is the preferred mode of social service delivery (as we saw in the Hollingsworths’ chapter), with partially subsidized NPOs filling in the gaps. The situation is similar in Israel except that contributions (often from abroad) play a larger role. In the United States philanthropy is much more important and there is considerable purchase of services by government from both nonprofit and for-profit organizations.

Does reliance on government funds decrease the autonomy of voluntary social service agencies? Kramer argues that it does not, a finding that seems to conflict with other chapters in this volume (e.g., see the chapters by James and Smith). This apparent conflict is partially resolved when we realize that most of the regulations found by James apply to inputs rather than outputs (whereas Kramer is looking at outputs) and that much of the government influence found by Smith operates via its selection of organi-

zations to support rather than via direct controls over the supported organizations.

On the first point, when large subsidies are involved, government is more likely to require the staff to have specified credentials, to receive the same wages and working conditions as civil servants, and so on. These input-related requirements may be imposed because inputs are more readily observed than outputs, hence they are used as a proxy for quality; or they may prevail because workers have more powerful protectors (unions) than consumers have.

On the second point, when government is the major source of funding, those organizations flourish that are doing things the government wants done. Even if government does not directly control a given organization, it does select among different organizations and in so doing indirectly shapes the configuration of the nonprofit sector. This selectivity would not show up as “interference” in a sample survey, but it is influential nonetheless. Of course, the same is true when private donors are the major source of funds: they indirectly shape the configuration of the sector via the causes they select. Then, the resulting shape may be different depending on who provides the funds and selects the recipients. Perhaps the key question here, as Kramer suggests, concerns the number of donors from which NPOs may choose: the greater the variety, the greater the discretion left to NPOs. In most cases I would expect to find more donor variety, therefore more organizational autonomy, when the government is not the only or even the dominant source of funds.

The other side of the coin from autonomy is accountability: how does the government monitor the use of its funds? Monitoring the actions of many small agencies is a difficult and expensive job and therefore not always done very carefully—another explanation for Kramer’s finding that subsidy does not impair institutional autonomy. At the same time, reporting requirements proliferate, imposing a heavy administrative burden on small voluntary agencies. This detracts from the resources available to provide services—yet it is a necessary condition for some degree of majoritarian control over organizations receiving public funds. The accountability dilemma is discussed further in the chapters by Hills and Seibel.

Housing Associations in England: Provision by NPOs versus Local Government

Most of the examples of NPOs we have discussed until now are in the education, health, or social service industries. The paper by John Hills deals with housing, an industry in which nonprofit organizations have begun to play an important role in recent years in countries such as Great Britain and Germany.

In housing, as in other industries covered in this volume, NPOs have developed as an alternative to local government production rather than to for-profit production. Public policies first made private enterprise nonvia-

ble in the rental market, then turned the responsibility over to local governments, and finally subsidized production and management by nonprofit enterprises. In other words, politicians, rather than individual consumers, found NPOs more “trustworthy” than for-profit enterprises. (Also see the Badelt chapter on the politicians’ distrust of for-profit organizations.)

More specifically, in the early twentieth century rent controls effectively choked off the private for-profit supply of rental units, which accounted for 90 percent of all housing stock in 1914, and less than 10 percent today. But the demand for rental housing was not eliminated. To meet this demand, the central government undertook the task of subsidizing and local governments undertook the task of building and managing rental housing stock—just as they took over the responsibility for hospitals and secondary schools at about the same time (see the Hollingsworth and Hollingsworth chapter).

A combination of monopoly power and limited resources led to a litany of familiar complaints against public housing: poor design, low maintenance, bureaucratic management. With the private for-profit landlord still distrusted, nonprofit housing associations were the logical alternative to local government production. They were seen as more efficient, flexible, and responsive than local government, less interested in personal monetary returns than for-profit landlords, hence a desirable avenue through which to funnel public subsidies. A sequence of market failure induced by public policy, followed by planning failure, then, has left housing associations the most rapidly growing alternative in the housing market.

Although many associations were started by religious or political groups and benefit from the time and enthusiasm of volunteer labor, their growth is closely tied to their access to public funds—as is the case for other nonprofit industries we have examined. Hills discusses in some detail the operations of the subsidy system, under which capital costs are covered by central government grants. Since the associations must turn over to the government a high proportion of their current account “profit,” this greatly reduces their incentive to keep costs under control—a generic problem with cost-related subsidies, and one which proposed changes in the system are now intended to remove. As a substitute for market forces, the building associations are subject to extensive government regulations: building costs must fall within specified guidelines, fair rents must be charged, voluntary management committees must conform to government models, and financial accounts are regularly scrutinized by the Public Housing Corporation, which also has the power to make detailed recommendations and appoint people to the management committee. But day-to-day efficiency, responsiveness to tenants and criteria for allocating scarce space remain discretionary and difficult to monitor, raising the common problem of accountability when private organizations use public funds.

This case study makes it clear, however, that production by local governments also does not ensure accountability—to tenants, taxpayers, or the central government. Indeed, housing associations seem to be preferred

by many tenants and by a central government that is currently at odds with many local authorities (who come from an opposing political party). In this political battle the central government has now proposed to introduce greater competition, giving public housing tenants the right to opt out of local authority management and choose management by housing associations instead. (Along similar lines, the government has proposed that parents in public schools be permitted to opt out of local authority management.) Will large numbers of housing estates opt out of local management? Will the system become more efficient? Or will it become more segmented, with the housing associations “creaming” the better council estates? Will housing associations tend to allocate scarce space on a less egalitarian basis than local authorities would? How will the public sector respond? The next few years in Great Britain should be watched carefully to see how the competition between local government and nonprofit provision of quasi-public services plays itself out.

Indirect Tax Subsidies: The British Deed of Covenant

In most countries nonprofit organizations benefit from some form of tax relief, which can be thought of as an indirect government subsidy. Because it is indirect, this kind of subsidy usually entails fewer government controls than do more direct grants. The paper by J. Mark Schuster describes the British deed of covenant, a system for granting tax deductions for charitable contributions, and contrasts it with the American system.

Under the pure deed of covenant system, in effect until 1980, individuals making charitable contributions could not deduct them from their taxable income, but the charity could reclaim this tax from the government providing certain conditions were met (e.g., the contribution had to represent a long-term, not simply a 1-year, commitment). Thus, this system made it clear that the government was foregoing revenue as a result of the special tax incentive.

This system also made it difficult for donors to earmark the use of the funds accruing from the tax rebate, thereby giving NPOs greater discretionary authority. Moreover, until 1980 the charity could only reclaim taxes at the basic rate, even if taxpayers actually paid a higher rate, unlike the American system where high-income donors get greater tax relief than low-income donors. In this sense, the deed of covenant system might be considered more equitable than ours. But it also disadvantages high-income donors and the activities they prefer (e.g., high culture and education), presumably discouraging giving by these groups.

It is probably not surprising that when the Thatcher government, with its emphasis on private enterprise and voluntarism, came to power in 1979, one of its first acts was to change the tax system, lowering rates, allowing tax deductibility for short-term contributions and giving full tax relief for high-income donors—thereby making the British system more like the American one. Thus, the deed of covenant may be doomed; nevertheless,

it is worth study because it embodies certain principles that we would do well to consider in designing tax policy toward charitable contributions.

NPOs and Economic Development: Sri Lanka

Part III explores the special role of the nonprofit sector in furthering economic development and human rights. Estelle James depicts the nonprofit sector in Sri Lanka as consisting of two subsets: large multipurpose organizations that are financed mainly by Western donors and much smaller health and welfare organizations funded mainly by domestic governments. As in other countries, many NPOs in Sri Lanka have a religious affiliation and carry out social service activities, although a few of the largest are engaged in social overhead capital formation—a nonprofit function that is probably unique to developing countries.

One of the most important issues explored by James concerns the causes and consequences of the flow of foreign donations to developing countries through the nonprofit sector, an issue that is further analyzed in the chapters by Smith, Anheier, and Fruhling. Presumably individual donors donate because they care about the welfare of people in other countries, particularly people with much lower incomes but with whom they share some strong (religious, ethnic) “community of interest.”

Western governments contribute in order to support worthwhile projects and sympathetic groups abroad. NPOs (rather than profit-maximizing organizations or governments) are used as a conduit for this aid because they provide trustworthy information and low-cost administration and can often operate in politically sensitive areas where governments would be suspect. These points are elaborated upon in the chapter by Smith. That Western donors have made this institutional choice is, in fact, a rationale for the growth of the nonprofit legal form in developing countries: they are permitted to operate because they bring with them scarce foreign exchange that might not come otherwise. Of course, this means that foreign donors are also in a position to determine which development projects get undertaken and under whose management. The ambivalence of the Sri Lankan government toward this situation is demonstrated by the fact that it encourages NPOs via grants and tax privileges but also scrutinizes and regulates their activities, particularly their access to foreign funds. These points are also emphasized in Anheier’s chapter on African NPOs.

Although data on volunteer labor, which does not pass through the market nexus, is always difficult to obtain, James estimates that donations of time far exceed domestic monetary contributions in Sri Lanka. This may be an economically efficient way to mobilize and train labor in a developing country, where jobs are scarce, needs are plentiful, and market imperfections prevent wages from falling to market-clearing levels. Will volunteer labor decline as unemployment falls in the process of economic development? The paper by Badelt suggests it remains, but it is largely confined to informal household-to-household helping activities. The ability

of more formal NPOs to replace their volunteers with a professional labor force, which requires a large growth in donor contributions or government subsidies, will determine the long-run viability of the nonprofit sector as development proceeds.

The Ambiguous Political Role of European International Charities

Although most of the papers in this volume maintain that NPOs receive public funding because they help their governments carry out desired policies, Brian Smith asks a perplexing question: why are international charitable agencies heavily supported even when they openly oppose official aid and trade policies toward developing countries? He answers this question by providing extensive evidence of the ways in which nonprofit aid organizations are valuable to their governments, even while opposing official policies. They are a reliable and cost effective conduit for reaching the poor in developing countries; they help keep open channels of communication with foreign groups with whom domestic governments wish to maintain contact but cannot do so formally; and they serve an important information and advocacy role. (See the James chapter on Sweden for evidence of this role relative to domestic rather than foreign policy.)

When the opposition politics of the international charities becomes too active and outweighs their benefits, European governments can place restrictions on their use of funds, diminish their subsidies, revoke their tax-exempt status, or threaten other legal sanctions. Thus, nonprofit organizations that strongly disagree with their governments face a trade-off between autonomy and funds; they may have to modify their actions in order to maintain their flow of resources. Most choose funds but a few (with strong preferences and alternative sources of finance) choose autonomy and forego public subsidies. As discussed earlier, this same trade-off is faced by domestic NPOs when extensive regulations accompany access to public funds, and most make the same choice in favor of funds.

One of the most interesting points in Smith's paper concerns the reliance of international NPOs on multiple sources of private donations, from donors whose varying objectives range from humanitarian emergency relief to long-run radical political change. The NPOs adapt by channeling different information about their activities to different donor groups and by concealing their true political orientation from those donors who probably would not be sympathetic. Occasionally this strategy backfires, during periodic exposés when donors learn they have been misled.

This empirical observation has important implications for nonprofit theory. A major theoretical rationale for nonprofit enterprises is that they will have less incentive than for-profit enterprises to "cheat" and misinform consumers and donors. Yet Smith provides contrary evidence, suggesting that nonprofit organizations depend on secrecy and often mislead donors—albeit for "altruistic" political rather than personal pecuniary motives. This underscores the point that pursuit of profits is not the only

objective that will lead organizations to “cheat”; nonprofit groups may do so to further their own ideological goals.¹¹ Ironically, if their “altruistic” commitment is strong they may be no more trustworthy than their “selfish” profit-maximizing counterpart.

The Diverse Role of Voluntary Organizations in Africa

Helmut Anheier examines the other side of the coin from Smith. He asks, why are NPOs allowed to operate in developing countries even when they are highly critical of these regimes and are committed to basic economic and political reforms? And, to what extent is it desirable for NPOs to set the development agenda in these countries?

Anheier argues that the answer varies across countries, depending on their scarcity of economic resources (which determines the urgency of their need for nonprofit funding) and the political power structure (which determines whether NPOs are useful allies in the struggle against political opponents). The NPO sector is important in Togo for the first reason and in Senegal for the second reason, while in Nigeria it is small but reflects fundamental religious and regional cleavages within the country.

Anheier analyzes in some detail the role of religious organizations in founding and funding African NPOs. In Togo religious (particularly Christian) NPOs dominate, their development work closely tied to their religious proselytizing objectives. In contrast, in Islamic Senegal, where historical competition from Christian missionaries was small, most NPOs are secular and are used by the government to bypass rural power structures that are tied to Islamic tradition. In Nigeria a vigorous competition between Islam and the various Christian churches has played itself out in the NPO sector, both historically and currently. In a detailed analysis of organizations for the handicapped, Anheier ties the regional distribution of public and private agencies, secular and religious NPOs, to religious heterogeneity and political competition.

In all three countries domestic NPOs are heavily dependent on foreign funds from international NPOs (see the chapters by James and Smith). However, the dependency of the countries on NPO resources, and therefore the public policies toward the nonprofit sector, vary greatly. In Senegal and even more so, Togo, NPOs are a major source of foreign exchange for the country as a whole, whereas in Nigeria private investment and direct government aid play a much more important role. Thus, Nigeria can ignore NPOs in its development plan (and indeed, “nationalized” many NPO projects during the oil boom of the 1970s), while Togo and Senegal cannot afford to do so. The differential attitude toward these three countries by Western donors who fund the NPOs is not very clear: both the supply of and demand for funds determine the final outcome but only the demand side is discussed in this chapter. In any event, in all three cases, as in other Third World countries, NPOs must walk a delicate line between independence, on the one hand, and acknowledgement of state supremacy