

THE NONPROFIT ENTERPRISE IN MARKET ECONOMICS

Estelle James and Susan Rose-Ackerman



Harwood Fundamentals of Pure and Applied Economics

THE NONPROFIT
ENTERPRISE IN MARKET
ECONOMICS



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ESTELLE JAMES AND
SUSAN ROSE-ACKERMAN



First published in 1986 by
Harwood Academic Publishers GmbH

Reprinted in 2001 by
Routledge
2 Park Square, Milton Park, Abingdon, Oxon, OX14 4RN

Transferred to Digital Printing 2007

Routledge is an imprint of the Taylor & Francis Group

© 1986 Harwood Academic Publishers GmbH

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British Library Cataloguing in Publication Data
A CIP catalogue record for this book
is available from the British Library

The Nonprofit Enterprise in Market Economics
ISBN 0-415-27466-4
Economic Systems & Comparative Economics I: 3 Volumes
ISBN 0-415-26959-8
Harwood Fundamentals of Pure & Applied Economics
ISBN 0-415-26907-5

The Nonprofit Enterprise in Market Economics

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A volume in the Economic Systems section

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harwood academic publishers
chur · london · paris · new york

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Poststrasse 22, 7000 Chur, Switzerland
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Harwood Academic Publishers

P.O. Box 197
London WC2E 9PX
England

58, rue Lhomond
75005 Paris
France

P.O. Box 786
Cooper Station
New York, NY 10276
United States of America

Library of Congress Cataloging-in-Publication Data

James, Estelle.

The nonprofit enterprise in market economics.

(Fundamentals of pure and applied economics; v. 9. Economic systems section)

Bibliography: p.

Includes index.

1. Corporations, Nonprofit. I. Rose-Ackerman, Susan.

II. Title. III. Series: Fundamentals of pure and applied economics; v. 9. IV. Series: Fundamentals of pure and applied mathematics. Economics systems section.

HD62.6.J36 1986 658'.048 86-14940

ISBN 3-7186-0329-2

ISBN 3-7186-0329-2. ISSN 0191-1708. No part of this book may be reproduced or utilized in any form or by any means, electronic or mechanical, including photocopying and recording, or by any information storage or retrieval system, without permission in writing from the publishers.

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Introduction to the Series

Drawing on a personal network, an economist can still relatively easily stay well informed in the narrow field in which he works, but to keep up with the development of economics as a whole is a much more formidable challenge. Economists are confronted with difficulties associated with the rapid development of their discipline. There is a risk of “balkanisation” in economics, which may not be favorable to its development.

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The Nonprofit Enterprise in Market Economies

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1. INTRODUCTION

In classical economic models no true institutions or choices exist. Competitive markets determine price. Cost and demand functions are known with certainty and determine quantity. Owners of firms are profit-maximizers who contract with inputs to produce outputs; inputs do not need to be motivated or monitored so long as they are paid the going wage; the firm itself is a black box.

Quite early in the development of modern economics, however, scholars recognized that the internal organization, incentive structure and behavior of firms were important independent topics of study and that simple models of profit maximization in competitive markets could not be used inside the firm. Similarly, when economists began to study the behavior of political institutions and public bureaucracies, profit maximizing models were inappropriate and social welfare maximization proved equally unsatisfactory as a positive model. More recently, economic analysts have started to

We wish to thank Richard Steinberg for his detailed and helpful comments and K. H. Lee for research assistance. We also wish to thank the Exxon Education Foundation, the National Endowment for the Humanities, and the Program on Nonprofit Organizations, Yale University, for their support on some of our research which is reported in this survey essay.