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The Nonprofit Sector in the Mixed Economy

Edited by Avner Ben-Ner and Benedetto Gui
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Nonprofit firms, together with a wide array of co-operatives (i.e., consumer, producer, worker, and credit co-operatives) comprise an important part of the increasingly significant "third sector" of our economy. The other two economic sectors, of course, are the traditional ones, namely, the private for-profit sector and the public or governmental sector.

This book of 12 essays, most of which are written by economists, purports to be the first to recognize and emphasize the role and behaviour of the nonprofit sector within a *mixed* economy. This means that the essays are largely focused on two issues: first, they seek to understand better the very specialized role which is played by the nonprofit form of organization within certain well defined niches of our economy; and second, given the inevitable presence of all three sectors in the mixed economy, the essays also attempt to provide helpful information on, and analysis of how, the nonprofit sector interacts with the other two sectors. Thus, such issues as whether nonprofits compete unfairly or inefficiently with for-profit firms in their commercial activities (Jerald Schiff and Burton Weisbrod), or whether increases in government spending serve to "crowd out" private donations to charitable nonprofits (Richard Steinberg), also receive careful analysis in this book.

After combining to write an excellent introductory essay to the whole volume, the two editors, Avner Ben-Ner (together with co-author Theresa Van Hoomissen) and Benedetto Gui go their separate ways to write two of the best essays in the book, each one dealing with the economic rationale for the development of the nonprofit sector. Each of these essays represents a theoretical advance on the pioneering work which has already been done in this area by Yale law and economics professor Henry Hansmann.[1] At the same time, however, it must be said that the essays reveal some of the limitations of a purely economic approach to the understanding of nonprofit institutions. In this review, I shall focus on the Ben-Ner and Van Hoomissen essay to illustrate the point, although a comparable claim could be made against many of the essays in the volume.

Hansmann's theory of nonprofits, to which Ben-Ner and Van Hoomissen (and almost all the other authors in the volume) refer, is the theory of "contractual failure". His argument is that it is often difficult for a purchaser to judge whether certain goods or services have been delivered by a supplier as contracted. A paradigmatic example is contracting for aid to be provided to the needy in some faraway country. (Contrast the delivery of flowers to a friend or relative, a service the performance of which is easily monitored when the call of thanks is received.) Another example is the delivery of care to either the very old, as in nursing homes, or the very young, as in day care. Again, in these situations the purchaser of the services is not on the scene to monitor performance under the contract and the actual consumer of the services, i.e., the elderly person or the child, is often incapable of doing so.

In such situations, suggests Hansmann, the purchaser of the service would prefer to deal with a nonprofit rather than with a for-profit firm. This is because the temptation to "chisel" on the contract (and to secure thereby a higher profit by economizing on the costs of production) is much greater in the case of the for-profit provider. For the nonprofit, on the other hand, the non-distribution-of-profit constraint precludes any such residual claim after paying (lower) costs, and thus removes the temptation.

The difficulty with this sort of theory, and it is a difficulty which Ben-Ner and Van Hoomissen seem to recognize in their essay, is that it does not explain why nonprofits are concentrated in the service industries. The explanation offered by Ben-Ner and Van Hoomissen (p.40) is that where most goods are "rival", meaning that one person's consumption or use of the good precludes another person's consumption or use (consider the consumption of food or the wearing of shoes), services range from the almost purely rival (e.g., personal financial services) to the almost completely non-rival or collective (e.g., high quality day care facilities and supervisory personnel). This is important to the authors because what they emphasize as the most significant aspect of the nonprofit organization in its ability to control for the "chiselling" problem is not the non-distribution-of-profit constraint (Hansmann's view), but rather the direct and comparatively effective *control* which stakeholders have over the provision of output in a nonprofit. Parents, for example, will have direct input into how a nonprofit day care centre is run, what facilities it buys, and what sort of staff it hires.

However, not all parents are in a position to be equally vigilant as controlling stakeholders. Nevertheless, in the case of non-rival or collective goods, this will be much less of a problem. Since in this case all parents consume the same collective good, non-controlling stakeholders in the nonprofit can rely on controlling stakeholders to provide them with high quality service. In the case of rival goods, on the other hand, non-controlling stakeholders would have to monitor the quality of the different private goods which they receive for themselves, lest the controlling stakeholders shift too many resources of the nonprofit in the direction of their own consumption. Thus, Ben-Ner and Van Hoomissen argue that nonprofits are most likely to be found where there is a need to provide non-rival collective goods and where, without stakeholder control, there would be a danger of chiselling. Day care and nursing homes, they argue, provide ready examples.

While clever, this account of nonprofits is not completely convincing. Consider for a start the purchase of "car repair", which Ben-Ner and Van Hoomissen refer to as an age-old example of a service subject to the chiselling problem, but one which they argue is characterized by rivalry in consumption and, therefore, not so likely to be provided by nonprofits. It seems strained to argue that car repair involves a mix between the consumption of collective goods (i.e., quality facilities and personnel) and rival goods which is very different from that which is found in day or nursing care. While a good mechanic can chisel on a particular repair job while at the same time providing excellent service to a more vigilant consumer, so too can a qualified day care or nursing home supervisor ensure that more attention is lavished on some children or patients than others. Second, it is not clear that services, so much more systematically than goods, exhibit the characteristics which Ben-Ner and Van Hoomissen need to explain the almost exclusive focus of nonprofits on the service industries.

Of course, the non-economist may well be puzzled by any attempt to find an explanation for the difference in organizational form between car repair and day care facilities in an attribute as technical as the rivalry of private, as opposed to collective consumption. Surely, the non-economist will argue, there is an important difference in the nature of the service which is provided in day care or nursing care, a difference which, more naturally than car repair, lines such services up with nonprofit motivations.

The idea that nonprofit motivation and organization might fit more naturally with the delivery of some goods or services than others, simply because of what these services are (and what profit is) will appear quite mysterious to some, and may even alarm those who feel that any idea of what is "natural" too often stands in for a steadfast conservatism. Certainly the idea is generally an unfamiliar one to economists, habituated as they are to the notion that institutions or organizations have little intrinsic worth and are only to be assessed on instrumental grounds, i.e., according to whether they deliver efficiently those goods and services most in demand according to given consumer preferences.

In light of this it is interesting to observe that in their contribution to this volume, the two economists Jerald Schiff and Burton Weisbrod have invoked something of this idea to explain a significant empirical fact about nonprofits in our mixed economy, namely, that in the service industries where nonprofits appear, they often coexist with for-profit firms and governmental organizations. It is this fact which raises the spectre of (possibly "unfair", because tax-subsidized) competition between for-profit and nonprofit organizations in certain commercial markets, the subject of the Schiff-Weisbrod paper. In other words, the mixed economy to which this book makes reference in its title is an economy in which the different organizations are mixed, not merely according to industry (as might have been suggested by both the Hansmann and the Ben-Ner and Van Hoomissen analyses of comparative institutional advantage for the provision of certain kinds of goods), but within an industry as well.

Schiff and Weisbrod explain this intra-industry mix of organizational forms (pp. 127-47) by suggesting that the managers of nonprofits (the analysis could just as easily be extended to the controlling stakeholders referred to by Ben-Ner and Van Hoomissen) have a preference for providing their nonprofit output in a non-commercial manner. Nevertheless, these managers will, albeit reluctantly, engage in certain commercial activities in order to cross-subsidize their preferred nonprofit activity, especially when forced to do so by cutbacks in alternative governmental support. The more typical economic model, which does not allow for nonprofits' distaste for commercial activity, would not have the latter implication since it would predict that the nonprofit would always maximize profits from commercial activities regardless of the level of governmental support. After all, according to these sorts of models (for which the Hansmann and Ben-Ner and Van Hoomissen accounts are perfect examples), nonprofits and for-profits are merely structurally different organizations designed to overcome different supply side constraints (e.g., that the good is collective and hard to monitor for quality) in their single minded and purely instrumental pursuit of a common purpose, namely, the most efficient satisfaction of a given set of consumer demands.

More to the point here, in contrast to these more typical economic models, the Schiff-Weisbrod analysis implies that nonprofits, even though they might be able to out-compete for-profit firms because of tax subsidies attaching to their related nonprofit activity, or because of certain economies of scope across these different activities, might choose not to meet the entire demand for commercial output in an industry because of their distaste for it. In such a case, for-profit enterprises would need to exist together with the nonprofits so as to satisfy the excess demand.

The Schiff-Weisbrod analysis is more important to this volume of essays for the general nature of its argument rather than for its specific details. What their argument accommodates, in a way that the more conventional economic analyses represented elsewhere in the volume do not, is the possibility that the suppliers of certain kinds of goods and services may have genuine nonprofit motivations. These may better explain the choice of the nonprofit mode of organization than even the most elaborate and technical of economic analyses which, typically, remain steadfast in their refusal to entertain any serious analysis of genuinely altruistic behaviour.

This kind of technically elaborate modelling of what remains motivationally impoverished self-regarding behaviour, at least in contexts where other-regarding behaviour would seem more in need of analysis, is nicely exemplified by Dennis Kaufman's essay for the volume which is revealingly titled "Self-Serving Philanthropy and Pareto Optimality". The topic here, of course, has shifted from the organizational motivations which are held by nonprofit stakeholders and managers to the incentives donors have for contributing to charitable nonprofits. But, as the term "self-serving philanthropy" suggests, the analysis remains unreservedly self-regarding. Philanthropy is self-serving, Kaufman suggests (p.82), when (i) donors perceive that their own giving and the giving of others are *not* substitutes for each other, and (ii) the value that donors place on their own contributions to a charity depends *negatively* on the contributions of others. The first of these two requirements is needed to explain the fact that donors make any contributions at all since, according to many of the more conventional economic analyses, an individual will be tempted to free-ride on the contributions of others. Such free riding seems contrary to experience. However, lest Kaufman find himself backed by this first requirement into a Kantian corner of unconditional giving, he adds the second requirement which preserves (with a vengeance) the self-interested motivation which, as an economist, he holds so dear. Now the decision to give *does* relate to the giving of others, but in a peculiarly negative way. In self-serving philanthropy, if others give then the donors' own gifts mean less and so they must give more to get the same "effect" (e.g., the same distinction) from their acts of giving.

It is not so much that Kaufman might be wrong about what motivates people to give to charity. Indeed, we should always be open to the possibility that he may be right. Certainly he has some interesting advice to give to charitable organizations so that they can better motivate self-interested philanthropists to give and these may provide us with some interesting empirical tests of his theory. Rather, what is disconcerting about Kaufman's analysis is that it develops a huge amount of technique to explain, in largely self-interested terms, what appears to be essentially other-regarding (in a positive way) behaviour. Why do economists feel the need to do that? This sort of *explanans*, because it accounts for what a thing is in terms of what it is not, would seem to do a kind of conceptual violence to the *explanandum*. Nor is it clear that Kaufman needs to operate at such a distance from what we traditionally understand as philanthropic behaviour. Consider, for example, the other-regarding notion of reciprocity.[2] In reciprocal giving, although I may not be the sort of Kantian who gives unconditionally (for example, I may not want to be the "sucker" who gives when no one else does), I may want to give more if I can be assured others are giving too (i.e., to reciprocate). Thus, in reciprocal giving, my own giving means more, not less, if I know others are giving too, something which contrasts directly with Kaufman's account of the motivations for philanthropic giving, even though some of the behavioral implications would seem to be the same.

These criticisms of some aspects of methodology should not suggest that this book of essays is not deserving of close scrutiny from the student of nonprofit organizations. If nothing else, half of the essays in the volume, including four studies of the nonprofit sector in four different countries (West Germany, Italy, the United Kingdom, and New York State) provide useful information on the nonprofit sector with respect to, for example, its current distribution across different industries, and how its revenues, expenditures, wages, and employment levels have changed over time in the mixed economy.

It must also be admitted that one of the empirical studies, namely the one done by Alphonse Holtmann and Steven Ullman on American nursing homes (pp.149-62), appears to offer some interesting empirical support for Hansmann's theory of "contract failure" to account for nonprofit organizations in that industry. Thus, while the reader may want to keep a critical eye open when perusing the insights provided by these predominantly economic analyses of the nonprofit sector, a reader who ignores this sort of analysis altogether will be ignorant of some of the most interesting work now being done in the area.

FOOTNOTES

1. H. Hansmann, "The Role of Nonprofit Enterprise", 89 *Yale Law Journal* 835 (1980).

2. See R. Sugden, "Reciprocity: The Supply of Public Goods Through Voluntary Contributions", 94 *Economic Journal* 772 (1984). The notion of reciprocity has much in common with the motivations modelled in what Amartya Sen has called "the assurance game". (See A. Sen, "Goals, Commitment, and Identity", 1 *Journal of Law, Economics, and Organization* 341, 350 (1985).)

Older Volunteers: A Guide to Research and Practice

By Lucy Rose Fischer and Kay Banister Schaffer
Published by Sage Publications, Newbury Park, CA 91320, pp. 251

REVIEWED BY JOYCE FORSTER
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"The Older Volunteers Project began as part of a new initiative at the Wilder Research Center to create 'guides to research in the human services'. Each 'guide' is a synthesis of research on a particular topic in the human services. The purpose of these guides is to improve the effectiveness of human services by making research findings available to practitioners."

So begins the Acknowledgements in this useful guide for those who work with older volunteers or, discerning clearly the rapidly diminishing pool of available daytime volunteers, are planning recruiting campaigns among the "leisured classes".

In addition to the Wilder Foundation, the research was funded by Grantmakers in Aging (which includes six other U.S. foundations). The authors also credit 57 volunteer professionals and 15 "nationally recognized" authorities on volunteerism and aging serving on the Older Volunteers Advisory Board.

I put forward this information to indicate that this is not some off-the-cuff opinion piece but serious stuff with impeccable credentials. As such, it should be noted this is not a book to start at bedtime and continue, transfixed, into the small hours of the morning. It is, rather, a reference guide to be consulted on particular topics and problems as they arise. This approach is made easier by an Outline of Chapters in the prefix.

Part I – Background – gives a general overview of the field under such headings as: Who Volunteers?, The Politics of Volunteering and Why People Volunteer. An interesting observation that emerges from Chapter 4 is that "Religion and religious involvement have a significant impact on volunteering, especially for older volunteers". This echoes the research of Professor Harry Kitchen of Trent University ((1986), 6 *Philanthrop.* No. 3, pp. 40-55) which demonstrated that the majority of charitable donations in Canada are church-related.

Part II – Working With Older Volunteers – deals with such practical matters as Recruitment, Volunteer Retention, and the quality of the work of older volunteers. Not surprisingly, most of the programs that work for older volunteers would work equally well for volunteers of any age.

Part III – Special Topics – includes Ethics and Other Thorny Issues, Minority Elders as Volunteers, and the Benefits to Older Volunteers. The issue raised in this section—charges of exploitation, dealing with misbehaviour or incompetence, ethnic sensitivities, myths about the benefits of volunteering—are not amenable to simple resolution. Nevertheless, they are thorns in the flesh of all volunteer managers and this section alone would make this book a valuable addition to the library or reference shelf if only—as will sometimes be the case—because misery loves company.

Part IV – Conclusions and Implications – is devoted to "Thinking Strategically About Older Volunteers", a useful wrap-up and summary.

So why am I feeling so peevish? I think it's because, despite their insistence to the contrary, there is a distinct undercurrent in this book that suggests the authors believe that volunteering is "good" for their deprived elders. There is also more than a suggestion that having embraced retirement from the "productive" life of the community older citizens have some sort of "duty" to take over the roles left vacant by the departure of all the women who once supplied society's civilized underpinnings.

I would not be working for this journal if I did not believe in philanthropy and its companion virtue, volunteering. In private life I strive earnestly—and greatly to my own profit and pleasure—to practise what I preach. But the whiff of political correctness that emanates from professionals' literature about older people produces an almost overwhelming desire to buy a Winnebago and head for St. Petersburg.

Peevishness vented, let me reiterate that anyone who now has, or expects to have, assistance from older volunteers will find this book an invaluable resource.

Still, while you're waiting for it to arrive, you might wish to ponder the following—based on more years than I care to count as both a volunteer and a manager of volunteers:

a) Do not ask retired corporation presidents to head the envelope-stuffing committee;

b) Assume that what has worked well for volunteers of other ages will work equally well for older volunteers;

c) Accept that a certain number of your older volunteers will grow tired, bored, burned out or incompetent and get rid of them with as little blood on the sand as possible, i.e., in exactly the same way as you get rid of other volunteers who are tired, bored, burned out or incompetent.