University of New England

School of Economics

Public Policy Approaches to the Voluntary Sector

by

Brian Dollery, Joe Wallis and Lin Crase

No. 2002-7

Working Paper Series in Economics

ISSN 1442 2980

http://www.une.edu.au/febl/EconStud/wps.htm

 ISBN 1 86389 807 7

Public Policy Approaches to the Voluntary Sector

Brian Dollery, Joe Wallis and Lin Crase**

Abstract

Little is known about the most appropriate methods of conceptualizing the relationships between government and the voluntary sector in advanced market economies and this represents the central concern of the present paper. The paper begins with a synoptic review of the main elements of public policy making, and then examines the problem of 'sectorization'. The substantive body of the paper evaluates a number of approaches developed in the literature that could constitute a framework for formulating public policy on the voluntary sector. The discussion ends with some brief concluding remarks.

** Brian Dollery is a Professor in the School of Economics and Director of the Centre for Local Government at the University of New England, Australia, Joe Wallis is a Senior Lecturer in the Department of Economics at Otago University, New Zealand and Lyn Crase is a Lecturer in the Department of Business, La Trobe University, Australia . Contact information: School of Economics, University of New England, Armidale, NSW 2351, Australia. Email: bdollery@metz.une.edu.au.

Public Policy Approaches to the Voluntary Sector

INTRODUCTION

Despite the growing interest in the voluntary sector over the past twenty years, and the substantial theoretical and empirical literature now available on nonprofit organizations (NPOs), the relationship between the voluntary sector and the state remains largely unknown. Gidron, Kramer and Salamon (1992, p.xiii) observe that '…there are no generally accepted concepts, models, theories, or paradigms' and instead 'numerous metaphors are used', such as 'the new political economy', 'third-party government', 'nonprofit federalism', 'the enabling state', 'the franchise state', 'indirect public administration' and the French 'social economy'. The lack of an agreed theoretical framework against which to formulate and implement public policy constitutes a formidable barrier to successful policymaking.

This paper is concerned with the problem of conceptualizing the relationship between government and the voluntary sector in advanced market economies. The paper begins with a synoptic discussion of principal elements of the economic approach to public policy making and emphasizes the importance of economic efficiency, equity considerations and potential tradeoffs between these two genre of policy objectives. It then focuses on the problem of 'sectorization' and the difficulties it poses for policy makers. In the substantive body of the paper, we examine a number of approaches that have been suggested in the literature that can constitute a framework for formulating public policy on the voluntary sector. The paper ends with some brief concluding comments.

PUBLIC POLICY FORMULATION

The determinants of public policies are complex and not well understood by social scientists (Nagel, 1999). A myriad of different groups, including voters, interest groups, political parties, public bureaucracies and the media, are involved in public policymaking and formulation. Public policies are thus conceived in an environment characterized by numerous competing pressure groups, with diverse and often fundamentally conflicting demands. In plural democratic systems power is dispersed and consequently political decisions must be reached through bargaining and compromise. Accordingly, the policy process can hardly be described as entirely rational, well coordinated or efficacious. Although it is obviously difficult to estimate the impact of ideological, analytical and other elements in public policy making, it nevertheless seems safe to assume that insights drawn from the social sciences, including economic theory, do have at least some influence on the policy process.

Microeconomic theory is centrally concerned with the implications of the universally applicable problem of relative scarcity. By contrast, microeconomic policy focuses on reducing the magnitude of relative scarcity and altering the burden of relative scarcity amongst members of society. In other words, microeconomic policy seeks to diminish the degree of relative scarcity by enhancing economic efficiency, and redistribute the burden of scarcity by modifying income differences between individuals (Hartley and Tisdell, 1981). For example, energy deregulation in the United States, postal privatization in Japan and public sector reform in South Africa all represent cases of efficiency promoting microeconomic policies. On the other hand, social security systems in Western Europe, agricultural subsidies in America and drought relief programs in Australia are all instances of microeconomic policy interventions directed at changing the burden of scarcity between different individuals and groups in society.

Microeconomic theory provides public policy makers with several useful normative frameworks for gauging the attributes of specific policies. At the risk of over simplification these can be separated into two main groups. In the first place, economists have developed useful measures of economic efficiency that can be applied to real-world policy proposals. Economic efficiency is defined in three main ways in economic discourse. Firstly, *technical* or *productive efficiency* refers to the use of scarce resources in the technologically most efficient manner. Put differently, technically efficient production describes obtaining the maximum possible output from a given set of inputs and approximates the everyday concept of 'best practice' in production.

The second measure of efficiency, known as *allocative efficiency*, refers to the distribution of productive resources among alternative uses so as to yield the optimal mix of output. In the language of microeconomics, under conditions of 'perfect competition', the optimal output arises through consumers responding to market prices that reflect the true incremental costs of production, or 'marginal costs'. Allocative efficiency thus involves an interaction between the productive capacity and consumption activity of society.

Dynamic or *intertemporal efficiency* represents the third way of defining economic efficiency. In contrast to both productive efficiency and allocative efficiency, dynamic efficiency is a much less precise concept with no universally agreed formal definition. In general terms, dynamic efficiency refers to the economically efficient usage of scarce resources through time and thus embraces allocative and productive efficiency in an intertemporal dimension. The comparative institutions approach focuses on the efficiency of alternative institutional arrangements in a dynamic context and can thus be said to embody the notion of dynamic efficiency.

The generic notion of economic efficiency, with its allocative, productive and dynamic constituent elements, is typically employed as a yardstick against which existing institutional arrangements and proposed policies can be evaluated. For instance, some current institutional mechanism for delivering age care services may be scrutinized and found wanting on grounds of productive inefficiency. This would provide a *prima facie* case for policy change to enhance productive efficiency in these age care services. Similarly, if two competing policy proposals are advanced with a common objective of improving some given human service, then these proposals can be adjudged in terms of economic efficiency, and the policy that has superior efficiency outcomes chosen.

The second method of assessing proposed policies that has been developed by economists can be broadly grouped under the term 'equity' or distributional considerations. Thus, even if existing institutional arrangements are economically efficient, additional ethical arguments may still be invoked to justify change since economic efficiency is seldom an end in its own right, at least within the sphere normally inhabited by the voluntary sector. In any event, practical politics inevitably obliges policy makers to consider equity as well as efficiency issues. We therefore fully agree with Wolf (1989, p.30) who observed that 'most public policy decisions are usually even more concerned with distributional issues (namely, who gets the benefit and who pays the costs) than with efficiency issues (namely, how large are the benefits and costs)'.

The introduction of fairness or equity considerations into economic analysis brings with it complex and sometimes intractable issues (Kolm, 1993), not least the fact that a potentially inexhaustible range of standards for evaluating equity exist. For instance, Wolf (1989, p.82) has argued that equity can be variously defined as 'equality of opportunity', 'equality of outcome', 'perfect equality of outcome' only if the least well off improve, 'treating equally situated people equally', 'treating unequally situated people in appropriately equal ways', 'from each according to ability, to each according to need', 'an eye for an eye', and 'turn the other cheek', amongst many other possibilities.

In addition to the difficulties presented by a potentially endless array of equity criteria, further complications may arise when different methods of approaching ethical questions are taken into account. For example, it is possible to distinguish between approaches to equity that emphasize distributive processes, distributive opportunities, and distributive outcomes. Thus an approach that focuses on outcomes might call for equality between all persons. But this would overlook the procedural dimension of distributive outcomes. For instance, it is entirely conceivable that unequal distributions may be fair if they are the result of just processes of exchange. In the same vein, an approach that embraces procedural fairness to the exclusion of distributional outcomes might allow substantial income and wealth differences to arise. Moreover, both the outcome and procedural approaches neglect initial endowments enjoyed by individuals in society. But considerations of equality of opportunity require complex interpersonal comparisons of the inherited abilities of people and their socioeconomic backgrounds. It is thus clear that the adoption of any one of these three generic approaches to fairness involves tradeoffs between processes, opportunities and outcomes, not to mention more general tradeoffs between equity and economic efficiency.

Despite the difficulties engendered in the application of equity considerations to social policy questions, three common ethical arguments are often invoked. In the first instance, widespread support appears to exist for the proposition that the workings of the modern market economy may induce extremes of income and poverty that should be ameliorated by some form of policy intervention. Equity-based distributional arguments along these lines have been used to justify the massive redistribution programs characteristic of the contemporary welfare state. They have also brought into existence thousands of voluntary sector organizations through the world dedicated to the reduction of poverty.

A second frequent equity argument is based on the notion that people do not always behave in their own interests. For instance, it is often asserted that unless compelled by law, some parents will not ensure that their children attend school. Similarly, restrictions on tobacco smoking and the ingestion of narcotics are commonly justified on these grounds. Arguments in this mold derive from the concept of merit and demerit goods developed by Musgrave (1984, p.78), who defined merit goods as 'goods the provision of which society (as distinct from the preferences of the individual consumer) wishes to encourage or, in the case of demerit goods, deter'. The merit good argument is often invoked by voluntary organizations in an advocacy role to call for government subsidies for various good causes, not least the arts and other cultural activities. Similarly, the demerit good argument is also frequently called upon to influence governmental behavior. Modern debates on appropriate policies for narcotics tend to hinge on demerit good argumentation.

A third popular equity argument revolves around the concept of equal economic opportunity. It is sometimes claimed that markets resort to ethnic, gender or racial stereotypes as a filtering device, and that these biases are reflected in employment patterns, the composition of Boards of Directors, club membership, and many other ways. Exponents of these arguments typically call for government intervention in the form of anti-discrimination laws, affirmative action programs and other legislation aimed at improving the lot of minority groups. Voluntary organizations often play a leading advocacy role in this area.

Microeconomics thus provides policy makers with useful analytical tools in the form of precise measures of economic efficiency and much less precise notions of equity. It also furnishes policy makers with the crucial idea of policy tradeoffs, where the achievement of one policy objective may occur at the cost of some other intended policy aim. In social policies frequently tradeoffs may be identified between efficiency and equity objectives. For instance, unemployment benefits to jobless people may come at a price in terms of the level of unemployment because they may reduce the incentive to work on the part of beneficiaries. It is thus crucial to determine the intensity or elasticity of tradeoffs between policy objectives in order to achieve socially optimal outcomes.

An obvious caveat should be appended to the economic approach to social policy making. Not all social policy objectives can be reduced to economic efficiency or distributional equity terms. Other objectives are often extremely important. For example, transparency may represent a cardinal virtue in many arenas of public policy formulation and implementation that can override equity and efficiency considerations. Similarly, the need for public participation in policy decisions may dominate in some spheres, especially policy towards the voluntary sector.

In addition to the equity and efficiency criteria of conventional economic analysis, Weisbrod (1998) has sought to identify various alternative dimensions of institutional behavior that public policy makers ought to incorporate into their analyses of the voluntary sector. In this context, he invokes the concept of a 'bonoficer' and contrasts its possible maximands with that of the traditional profit-maximizing firm. A bonoficer is 'an organization [that] might seek to generate less than maximum profit, while engaging in activities that are socially desirable but unprofitable' (p.74).

In order to augment the standard yardstick of economic efficiency, Weisbrod (1998) has identified four further policy criteria that should be considered. In the first place, he posits the notion of 'taking advantage of consumer informational deficiencies' and observes that 'when commodities are complex, so that it is costly for consumers to gauge performance and, hence, for sellers to guarantee the quality of output, organizational form may signal expected behavior because of the interplay of organizational objectives and constraints' (p. 74). Since NPOs typically operate under a non-redistribution constraint, and consequently do not have strong incentives to maximize organizational surplus, they will not take advantage of their 'informational superiority' over consumers.

Secondly, Weisbrod (1998, p. 75) contends that 'another relevant dimension of institutional behavior is output quality as reflected by level of resource inputs'. The argument here revolves around the idea that information on the quality of service produced by an organization is often difficult and expensive to gather. A potentially useful proxy for service quality may reside in the magnitude and caliber of the inputs employed to generate the service. But this information may also be difficult to accumulate. When this is the case, institutional form may act as a surrogate for knowledge about the quality of inputs.

A third possible policy criterion suggested by Weisbrod (1998) centers on the concept of product rationing to potential consumers. Where excess demand exists for the services provided by an institution, various alternative methods of rationing output are feasible, including higher prices and waiting lists. Weisbrod argues that organizational structure may play a key role in choosing between alternative rationing methods, with bonoficers more likely than their profit-maximizing counterparts to 'choose to provide their services on a basis other than ability to pay' (p. 75). Thus, in those instances where social policy makers prefer non-price rationing methods, as in organ transplantation for example, 'the optimal solution may be not to prohibit sale altogether but to encourage institutional mechanisms that deploy a variety of distributional mechanisms' (p. 75).

Finally, Weisbrod (1998) maintains that where substantial positive and negative externalities can be identified, then policy makers should carefully consider organizational characteristics in policy formulation. The essence of this argument is as follows: 'insofar as nonprofits are bonficers, they tend to engage in more activities that provide more external (uncaptured) social benefits and in fewer activities that impose external costs'. Moreover, 'this is an important dimension of output in terms of which private firms and nonprofits might be expected to differ' (p. 75). Thus, where policy makers have good reason to believe strong externalities exist, they may wish to favor voluntary sector organizations *ceteris paribus*.

THE PROBLEM OF SECTORIZATION AND THE VOLUNTARY SECTOR

Scholars have encountered immense problems in attempting to provide a satisfactory definition of the voluntary sector. Indeed, it seems reasonable to conclude that no generally acceptable definition exists at present. An analogous and derivative problem resides in the dilemma of demarcating socioeconomic activity into conceptually discrete sectors. Yet this problem must be faced if socioeconomic activity is to be measured, analyzed and modified by public policies.

Socioeconomic activity can be conducted by numerous different entities, including markets, governments, households, voluntary organizations, informal sector organizations, religious institutions, and other social organizations. The problems posed by 'sectorization' or delineating socioeconomic activity amongst these various social constructs are formidable. For example, Rikki Abzug (1999, p.145) has demonstrated that 'many economic and social activities cannot be placed in clearly delineated sectors'. Moreover, 'comparing across economies, we add the observation that any one activity may appear in different designated sectors in different economies', and 'sector boundaries are permeable cross-sectionally, and historically variable within given economies'.

The difficulties presented by the sectorization are obviously not unique to the study of the voluntary sector and plague social scientists investigating all areas of social activity. Despite acknowledging this problem, we can suggest no easy method of resolving or at least ameliorating it. Accordingly, in the discussion that follows, we bow pragmatically to convention and simply assume that the public sector and the voluntary sector occupy distinctive and different roles within the contemporary mixed market economy.

CONCEPTUALIZING THE STATE AND THE VOLUNTARY SECTOR

Numerous scholars have sought to develop conceptual approaches to the problem of the relationship between the state and the voluntary sector, with mixed success. In principle, it seems possible to characterize the voluntary sector in four different ways (Morris 2000). In the first place, NPOs can be classified according to the inputs they use. Inputs may be defined in terms of income, following the United Nations System of National Accounts, or alternatively, by means of the nature of the labor services they consume, in particular uncoerced and unremunerated volunteers. A second method of delineating the voluntary sector focuses on the nature of the goods and services they produce. By contrast, NPOs can also be identified according to the manner in which they distribute their surplus revenue, a technique associated with Hansmann (1986). Finally, a compound concept can be used which incorporates multi-faceted aspects of the operation of NPOs, along the lines of the Johns Hopkins Comparative Nonprofit Sector Project 'structural-operational' definition that contains five key elements (Salamon and Anheier 1997). Unfortunately, as Susannah Morris (2000, p. 29) has shown, none of these techniques produces 'the same combination of constituent member organizations'.

This obviously raises immense difficulties for scholars seeking to conceptualize the relationship between the state and the voluntary sector. In this paper we evaluate these efforts.

The Competitive Paradigm

Gidron, Kramer and Salamon (1992, p.5) contend that contemporary scholarship focused on developing a conceptual model of the relationship between the state and the voluntary sector has been governed by the 'dominant image' of a competitive and conflictual relationship between the two sectors. The essence of their argument is as follows:

'[T]he relationship has tended to be perceived in one-dimensional terms – as a choice between state dominance or third-sector dominance. Indeed, in much of the debate that has brought the voluntary sector to prominence over recent years, a dominant paradigm has monopolized the discussion. Simply put, this paradigm portrays the relationship between government and the nonprofit sector in terms that are close to what economists would call a zero-sum game – a competitive relationship in which one actor's gains are another's loss. According to this view, the expansion of the welfare state over the past fifty years occurred largely at the expense of the voluntary sector.'

Gidron *et al* (1992) claim that this dominant 'competitive paradigm' has its roots in the work of the classical political philosophers of the Scottish Enlightenment, like Locke and Hume, who emphasized individualism and political liberty from the state. Modern conservatives, such as Robert Nisbet (1953) and Nathan Glazer (1977), have sought to contrast 'oppressive, rigid state bureaucracies' with 'innovative, flexible, and humane voluntary organizations'. According to this view, the rise of the welfare state 'has destroyed or seriously jeopardized the whole array of mediating institutions, including voluntary organizations', with an 'alarming upsurge' in 'anomie and despair' (p.6).

A similar competitive theme is evident in leftwing thought about the voluntary sector. Gidron *et al* (1992, p. 6) argue that 'those on the left have criticized blind faith in the capacities of ineffectual voluntary action as a barrier to the establishment of a truly effective system of public care available to all as a matter of right'. More recently, scholars in this tradition have branded the ' well intentioned' modern welfare state as dominated by 'middle-class professionals and middle-class concerns' that has 'lost touch with the needs of the truly disadvantaged'. This has 'sapped poor communities of whatever dignity and strength they retained' and transformed 'indigenous voluntary organizations into extensions of the state apparatus' (p. 7).

A third buttress of the 'competitive paradigm' resides in the economic theory on the origins and nature of the voluntary sector. Models derived from both the market failure and government failure literature see the voluntary sector existing only in response to the failure of the market or the state to provide desired goods and services. Gidron *et al* (1992, p.8) argue that for governments and NPOs to work together to solve social problems 'is something that this [economic] theory would find inappropriate at best and harmful at worst'.

Gidron *et al* (1992) argue that the 'competitive paradigm' has fatal flaws as a method of conceptualizing the relationship between the government and the voluntary sector. It is 'enshrined' in 'political rhetoric' and 'does not seem to describe very well the actual realities of government-nonprofit relations' (p.8). In particular, this paradigm 'glosses over a number of crucial issues'. In the first place, the 'competitive paradigm' arose not as an analytical tool but rather as 'an ideological construct' to facilitate a 'particular policy course'. Thus, 'the fact that extensive cooperation existed between government and the voluntary sector did not alter the fact that opponents of state action preferred sole reliance on the voluntary sector instead'.

Moreover, 'those who favored governmental systems of aid had little incentive to emphasize the important role that voluntary organizations seem to have played in helping government carry out its social functions'.

A second fundamental problem with the 'competitive paradigm' lies in its failure to comprehend the multitude of different levels at which government can interact with the voluntary sector. For instance, national, state, regional and local governments all deal with NPOs and for each level of government the relationship may differ markedly. Similarly, even within a given level of government, different public agencies may develop quite different kinds of relationships.

The 'competitive paradigm' also overlooks the fact that public agencies and voluntary organizations often perform different functions, either separately or in tandem. Thus 'nonprofits have both service functions, social functions and representational functions; government has financing, regulatory and service functions'. Often a service relationship between an NPO and a public agency may be entirely different from a advocacy function between the same entities. While this naturally gives rise to conflict, Gidron *et al* (1992) contend that cooperation also exists.

A further weakness of the 'competitive paradigm' derives from its neglect of the crucial distinction between government funding and government delivery of social services. In principle, finance and service provision can take a myriad of different forms that are limited only by the creativity of policy makers. In practice, 'government finance can be combined with a wide assortment of delivery arrangements, from giving vouchers to consumers to negotiating service contracts with nonprofit and for-profit organizations' (p. 11/12).

The historical relationship is also overlooked by the static conception of the dominant 'competitive paradigm'. In many countries there is a long history of interaction between the state and the voluntary sector, with 'long waves' of shifting responsibility for various functions. Thus, 'far from competing with the state, nonprofit organizations were more often significant advocates of expanded state responsibilities and in many cases have themselves benefited from the expansion of state action' (p. 15).

Finally, 'different national traditions' seem to play a critical role. Church-state relations, the nature of the legal system, and the degree of decentralization of government appear to have a significant bearing on the relationship between the government and the voluntary sector. 'Path dependency' deriving from factors such as these cast further doubt on the validity of the 'competitive paradigm'.

Young's Tripartite Model

Perhaps the most intuitively appealing approach to solving the problem of conceptualizing the relationship between the government and the voluntary sector derives partly from the various theories that have been proposed to explain the existence of the voluntary sector, as well as other aspects of modern economic theory. Following this line of inquiry, Dennis Young (2000) has argued that 'different strands of economic theory support alternative notions of the nonprofit sector as supplementary, complementary, or adversarial to government'. The idea of NPOs should act as supplementary agents to the public sector stems directly from the theoretical conception of the voluntary sector as a response to government failure. The literature flowing from Weisbrod's (1977) seminal work focused on NPOs as providing services that governments failed to produce. In this sense the voluntary sector can be said to augment the operation of the public sector. However, government failure models of NPOs construe that the inability of the state to the meet heterogeneous preferences of its citizenry can be overcome not only by the voluntary sector, but also by private firms.

One consequence is that the pattern of voluntary sector service provision is likely to vary enormously between countries and regions with relatively diverse populations, like the United States, and those with a comparatively homogeneous composition, such as Japan. A second implication of this view is that changing preference structures create both difficulties and opportunities for the voluntary sector. On the one hand, when governments extend their activities into previously untouched areas, this can obviously threaten the activities of existing NPOs. On the other hand, 'the supplementary view also illuminates the notion that private action is often actually intended to prod government into action' (Young 2000, p.152).

The idea of the voluntary sector and the public sector forming a complementary relationship can be traced to the work of Salamon (1987) who proposed a collaborative relationship between governments and NPOs. According to this view, government is the 'derivative' or residual institution that responds to 'inherent limitations' on the part of the voluntary sector. Thus public agencies and NPOs form a 'partnership' in which governments may fund service provision while the voluntary sector delivers services. Emphasizing the empirical basis for his theory, Salamon (1995, p.34) has trenchantly observed that 'cooperation between government and the voluntary sector has become the backbone of this country's [United States'] human service delivery system and the central fact of the country's private nonprofit sector'.

The question of which institutions actually produce the services will thus depend on their comparative advantages in terms of economic efficiency. Where public agencies can provide a given output more cheaply, then economic logic suggests they take responsibility. Conversely, when NPOs can achieve a defined outcome at lower cost, then they should deliver the service with public funding. The observed pattern of public and voluntary sector provision will depend on a case-by-case determination of relative economic efficiencies.

Young identifies an adversarial association between the state and NPOs as a third way of conceptualizing their relationship. He argues that 'the advocacy role of nonprofit organizations in public policy and the role of government in controlling nonprofit organizations have not been explicitly addressed by economic theories of nonprofit organizations' (Young 2000, p.155), even though these are widely recognized attributes of the nexus between the state and the voluntary sector. However, Weisbrod's (1977) model can help to shed light on the advocacy activities of NPOs by explaining advocacy as an attempt by minority groups to pressurize government into providing the services they desire. Governments may thus defend majority interests by placing restrictions on the advocacy behaviour of NPOs. Similarly, the market failure model presented by Hansmann (1980), with its spotlight on 'contract failure' derived from 'information asymmetry' and the resultant need for 'trustworthiness' on the part of NPOs, can illuminate the role of government in regulating the voluntary sector. Thus trustworthiness depends *inter alia* on a legally enforced nondistribution constraint and other forms of government regulation.

Under these arguments, various antagonistic relations arise between the government and the voluntary sector. Governments may place all kinds of restrictions on NPOs to reduce the effectiveness of their advocacy role. Thus, 'in the guise of regulation, government can become the adversary of nonprofits in the policy arena' (Young 2000, p.157). Alternatively, the voluntary sector and government may act in opposition to each other for the simple reason that a given policy proposal might affect the two sectors quite differently. For instance, a public policy designed to simplify a complex tax system might quite unintentionally harm NPOs by reducing the tax incentives to charitable giving. In cases of this kind, 'the actions of the government reflect Weisbrod's model of public sector decision making and (minority) nonprofit interests are forced to oppose what they view as a public bad' (Young 2000, p.167).

After applying his tripartite supplementary/complementary/adversarial model to a four-country case study, which comprised the United States, the United Kingdom, Japan and Israel, Young (2000, p.170) proposed several general 'hypotheses'. Firstly, since 'a dynamic economy creates social dislocations', the voluntary sector will 'address social needs in a supplementary mode', but NPOs will also 'engage government in an adversarial mode' in order to achieve 'better public services and other policy changes'. Governments initially respond in an adversarial manner to 'limit the influence of private groups', but in response to successful advocacy and unsuccessful voluntary sector provision, they then provide more comprehensive public services. But the government subsequently experiences problems 'in differentiating, expanding, or maintaining' the augmented services. This engenders renewed adversarial activity by NPOs in an effort to improve these services. Governments accommodate this by co-opting the voluntary sector to act as complements in service provision. Finally, retrenchments attendant upon perceived government failures 'open the way for further private supplementary activity, and so the cycle continues' (p.170).

Salamon's 'Third-Party' Government Model

A third way of conceptualizing the relationship between the public sector and the voluntary sector has been developed by Salamon (1981). In his 'third-party' theory of the voluntary sector, which we briefly raised in Chapter 2, Salamon (1995, p.41) argues that existing theories of the voluntary sector share the common failing that they all do not 'differentiate between government's role as a provider of funds and direction, and government's role as a deliverer of services'. In fact, in the American welfare state at least, the government uses a wide range of 'third parties' to deliver services, and its chief function has been to finance rather than produce services itself.

Given this stylized portrait of American governance, three dimensions of the relationship between the public sector and the voluntary sector may be identified. Firstly, Salamon (1995, p.41) argues that 'the government shares a substantial degree of its discretion over the spending of public funds and the exercise of public authority with third party implementers' drawn from the voluntary sector. This pattern of service provision follows the federal structure of American government and is uniquely suited to the pluralistic character of American democracy. Thus, in order to gather support for some proposed government project, the state must provide incentives to key interest groups. This is achieved by giving these groups 'a piece of the action' in the form of partnership roles in the proposed project.

Finally, a publicly financed and privately provided model of service delivery allows for 'flexibility and economy' in service provision, drawing on existing NPO expertise, avoiding the problems of massive public bureaucracies, and enlisting the benefits of competition.

The 'third-party' conceptualization of the interrelationships between the state and the voluntary sector is not without its drawbacks. For instance, 'because a number of different institutions must act together to achieve a given program goal, this pattern of government action seriously complicates the task of public management and involves real problems of accountability and control' (Salamon 1995, p.43). Nevertheless, it does have distinct advantages, including the creation of 'a public presence without creating a monstrous public bureaucracy'. Moreover, Salamon argues that his 'third-party' perspective has the overwhelming advantage of explaining that 'the persistence of a voluntary sector and widespread government-nonprofit cooperation are not anomalies at all', but rather 'exactly what one would expect'.

Positive Externalities Model

One way of avoiding the difficulties which flow from the problems inherent in defining the voluntary sector is to ignore the inputs, outputs, surplus revenues and other characteristics of NPOs and focus instead on the positive externalities they generate for society as a whole. This approach stems from the work of Robert Putnam (1993) and the enormous literature on social capital that surrounds it (Paldam 2000). Coleman (1988) defined social capital in terms of the ability of people to work voluntarily together and Putnam (1993) emphasized the role of NPOs in fostering the development of social capital. He observed that the density of voluntary networks in a given geographical area appeared to correlate with various positive social indicators, like trust and cooperation.

In the literature on social capital, it is widely argued that high levels of social capital have strong positive externalities in terms of economic growth and harmonious coexistence between citizens. Thus this approach to the voluntary sector has no interest in the activities of NPOs *per se*, but rather in the fact that they exist at all. Public policymakers can thus assist in the development of social capital and enhance its positive externalities by increasing the numbers and membership of voluntary organizations, regardless of what functions these organizations perform. At first sight, this method of conceptualizing the relationship between government and the voluntary sector has simple and straightforward policy implications.

But it is equally apparent that the policy implications might not be as clear as they initially suggest. For example, the notion of social capital itself is far from settled. Paldam (2000, p.629) points out that 'at least five seemingly different definitions of social capital exist' which 'belong to three families'. Similarly, policymakers need to consider the distinction between benign and malign social capital, and the positive and negative externalities involved. It is entirely conceivable that by abstracting from the actual activities of NPOs, and providing financial, regulatory and other support to the voluntary sector, policy makers may unwittingly aid and abet the action of malevolent and extremist groups in society. There seems to be little *a priori* for simply assuming that all NPOs automatically generate positive externalities and thereby warrant public support.

'Structural-Operational' Model

A problem that has plagued academic research into the voluntary sector has been the plethora of competing definitions of NPOs, inconsistent terminology and lack of consensus on even the most fundamental concepts. Scholars have often talked at crossed purposes to one another for no reason other than they have not shared a common conceptual language, and in many respects some exchanges have been akin to a 'dialogue of the deaf'. Against this background one of the most promising and important avenues of research into the voluntary sector has been the Johns Hopkins Comparative Nonprofit Sector Project (JHCNSP). Launched in 1990, this ambitious project sought to 'formulate a common language and a concept of the "nonprofit" sector' (Salamon and Anheier 1997, p.4) as part of a broader attempt to investigate 'the scope, structure, history, legal position, and role of the nonprofit sector in a broad cross section of nations' (p.1). A significant outcome of the project was the development of a 'structural-operational' definition of the voluntary sector.

The 'structural-operational' approach to the voluntary sector has identified five core attributes that organizations must exhibit to be considered as *bona fide* NPOs. Salamon and Anheier (1992) argue that voluntary sector organizations must be *organized* in the sense that they take some institutional form; they must be *private* and distinguishable from the public sector; they must be *non-profit-distributing* with all surplus revenues redeployed into their basic mission; they must be self-governing with a recognizable governance structure; and they should be *voluntary* with noncoerced membership and management.

From the perspective of public policy, this approach has a number of noteworthy features. For example, it does not prescribe the nature of the goods and services that an NPO should produce, and this allows for organizations that generate public goods and private goods to fall within the same group. Similarly, the 'structural-operational' model is not normative in so far as it deliberately precludes the invocation of efficiency and effectiveness criteria as yardsticks of performance. Moreover, and in contrast to the positive externalities model, it does not consider the general impact of NPOs on society at large.

The primary advantage of the 'structural-operational' model appears to lie in its generality; it can accommodate the vast majority of voluntary sector organizations. However, as Morris (2000) has shown, even the inclusiveness of this very general model has its limits. In particular, she argues that the non-distribution constraint rules out a number of highly significant civil organizations since 'by providing a mechanism through which their members could pool their risks, friendly societies arguably offered more opportunities for face-to-face interaction and the fostering of trust and social capital than alternative forms of organization, which the structural-operational definition recognizes as belonging to the nonprofit sector' (Morris 2000, p.40). Similarly, the fact that the 'structural-operational' model provides no guidance on how to evaluate the economic efficiency and social efficacy of NPO activities, and thus precludes any investigation of the comparative advantages of different organizations, severely reduces its potential usefulness to public policy makers. For instance, without any method for ranking the performance of competing NPOs, how can policy makers discriminate between these organizations in the distribution of scarce public funds?

Gidron's *et al* Typology of Government-Nonprofit Relations

Gidron, Kramer and Salamon (1992, p.16) have developed a typology of containing four 'basis models' that seeks to 'depict the relationship between government and the voluntary sector in the modern welfare state'. The four models are delineated on the basis of two structural characteristics of human service delivery: 'the financing and authorization' of these services and the 'actual delivery' of the services. Figure 1 illustrates the outcome of this taxonomic scheme:

Figure 1: Models of Government-Voluntary Sector Relations

	Model			
Function	Government Dominant	Dual	Collaborative	Third Sector Dominant
Finance	Government	Government/Third Sector	Government	Third Sector
Provision	Government	Government/Third Sector	Government	Third Sector

Source: Gidron, Kramer and Salamon (1992, p.18), Figure 1.1.

The 'government-dominant' model represents the case where the public sector plays a paramount role in both the funding and delivery of human services, with tax revenues generating the requisite finance and civil servants delivering the services in question. This method of human service delivery is quintessentially representative of the modern welfare state.

At the opposite extreme, under the 'third-sector dominant' model voluntary organizations monopolize both the financing and provision of services. Gidron *et al* (1992, p.17) observe that 'this model typically prevails where opposition to government involvement in social welfare provision is strong either for ideological or sectarian reasons, or where the need for such services has not yet been widely accepted'.

The 'dual' or 'parallel-track' model falls between the 'government-dominant' model and the 'third-sector-dominant' model, with both finance and provision shared between the government and the voluntary sector. Gidron *et al* (1992) distinguish two alternative forms that the 'dual' model can take. In the first place, 'nonprofits can supplement the services provided, delivering the same kinds of services but to clients not reached by the state' (p.19). By contrast, 'the third sector can complement the offerings of government by filling needs not met by government activity' (p.19). The primary characteristic of both forms of the 'dual' model 'is the existence of two sizeable, but relatively autonomous, systems of service finance and delivery' (p.19).

The 'collaborative' model shares most of the features of the 'dual' model, but differs sharply in the fact that the public sector and the voluntary sector 'work together rather than separately' (p.19). The discretion and independence of NPOs under the 'collaborative' model can vary enormously. Accordingly, Gidron *et al* distinguish between the 'collaborative-vendor' model and the collaborative-partnership' model. In terms of the 'collaborative-vendor' model 'nonprofits can simply function as agents of government program managers, with little discretion or bargaining power', whereas under the 'collaborative-partnership' version 'third-sector organizations can retain a considerable amount of discretion, either in managing programs or, through the political process, in developing them' (p.19).

Gidron *et al* (1992, p.20) contend that not only does the incidence of these four models differ between countries, but 'the prevalence of these patterns may vary from sub-sector to sub-sector within a particular country and also from one period to another'. After examining the relationships in between government and the voluntary sector in nine advanced countries using these four models as an analytical prism, they draw several interesting conclusions. Firstly, they argue that the notion of an 'inherent conflict' between government and NPOs 'turns out to be a considerable exaggeration, if not a misstatement of the facts' (p.27). Moreover, it appeared that 'the extent of experimentation with collaborative models of service provision is striking'. However, the growing collaboration between the government and the voluntary sector carried with it considerable danger of excessive sate regulation, which could threaten the independence of the voluntary sector.

Gronberg's 'Patterns of Institutional Relations'

Kirsten Gronberg (1987) has also attempted to develop a taxonomic approach to the problem of conceptualizing the relationship between government and the voluntary sector. Adopting an American institutional perspective, she argues that 'two driving forces' have led to the emergence of a particular fourfold pattern of 'institutional relations' between the public sector and the nonprofit sector in the United States. In the first instance, Gronberg (1987, p.65) contends that 'for historical and political reasons the public sector has made use of nonprofit organizations to provide publicly mandated services in several service areas'. This has given rise to complex public-NPO relationships characterized by 'shared goals' and 'close relations', but also 'dependency' and 'conflict'. Secondly, the dominance of 'proprietary organizations' in various spheres of service delivery serves to complicate and modify the relationships between government and the voluntary sector.

The result of the interplay of these 'two driving forces' has been the development of four 'patterns' or models that describe the relations between the public sector and the voluntary sector. The outcome is shown in Figure 2:

Figure 2: Patterns of Institutional Relations

		Dominance of Proprietary Service Sector	
		NO	YES
Public Sector Dependency on Nonprofit Sector	YES	COOPERATION	ACCOMMODATION
	NO	COMPETITION	SYMBIOSIS

Source: Gronberg (1987, p.66) Figure 1.

The cooperation model in the first quadrant of Figure 2 arises because there are 'insufficient incentives' for private firms to seek market entry due to the 'types of clients' involved. Thus this area of service provision becomes the exclusive terrain of the public and voluntary sectors and close cooperation develops, 'although the balance of influence may shift between them' (p.66). Gronberg cites the case of child welfare services in Chicago as an example of the cooperation model in the real world.

The accommodation model occurs where 'the public and nonprofit sectors are mutually dependent on one another, but in addition, the proprietary sector has clear interests in the service fields'. Under these circumstances 'the nonprofit sector has little alternative but to attempt accommodation with both the public and proprietary sectors' (p.66). Health care in Chicago is an instance of cooperation.

The competition model in the third quadrant of Figure 2 manifests itself where the proprietary sector is not involved, but a 'strong' and 'highly specialized' public sector coexists with the voluntary sector and is not 'dependent' on it. The outcome 'is that the public and nonprofit sectors operate under an implicit division of labor, but one which easily deteriorates into direct competition, especially under conditions of scarcity' (p.66). Education represents an example of the competition genre of services.

Finally, a symbiotic model emerges where both the public and private sectors operate extensively in the field, leaving scope for only a 'highly specialized' role for the voluntary sector. In these conditions, NPOs cannot compete with their public and private counterparts 'but can mediate or accentuate the decision-making process of the other two sectors' (p.66). 'Housing and community development' exemplify the symbiotic model in the milieu of Chicago social service delivery.

At least two general observations can be made of the Gronberg (1987) 'patterns of institutional relations' conceptualization of the relationship between government and the voluntary sector. Firstly, it deals directly only with interactions within the field of human service delivery, although it may have implications for other areas of voluntary sector endeavor. But more importantly, the models she develops simply describe four kinds of institutional outcomes rather than explaining why they arise and how policy makers should respond.

Lyon's Models of Government Financial Support

In his *Third Sector*, Mark Lyons (2001) provides wide-ranging analysis of the voluntary in Australia, which includes the development of five models delineating the possible financial interrelationships between government and the voluntary sector. Lyons (2001, p.183) notes that 'each model describes a different orientation of government to the activities performed by nonprofits and a different way of conducting relations between the two'. In some ways the ordering of the Lyons' models can be said to reflect the evolution of relationships between the public sector and NPOs, at least within the Australian institutional context.

In the 'government as philanthropist' model, 'the government acts as a wealthy individual, bestowing support upon a particular project of a nonprofit organization after an approach from the organization to a minister or departmental official' (p.183). The public sector thus acts in a manner akin to a philanthropic trust or foundation in that it provides financial support for 'worthy' causes, without an overall social objective. In Australia, the Western

Australian Lotteries Commission, the Australia Council for the Arts and the Commonwealth Sports Commission represent examples of this model.

Once governments make decisions on which areas of activity they wish to expend funds, then Lyons' 'submission model' becomes operative. In terms of this model, public policy makers determine *ex ante* the nature of the service they propose to fund and then invite NPOs to submit applications for financial assistance. Under this model, governments decide on the kind of service they will fund, but the recipient voluntary organizations retain considerable discretion over the manner in which they deliver these services. Typically relationships are conducted on a 'case-by-case' basis. Lyons argues that this model leads to a lack of uniformity in service delivery, a bias towards citizens who 'were more readily able to form nonprofits and seek funds' (p. 184), and a comparatively 'unsystematic' expenditure of scarce public monies.

Lyons (2001) argues that the submission model was largely superseded by a 'planning model' that differed from it in at least three important respects. Firstly, decisions on which services to fund are taken after extensive consultation with various bodies, including NPOs. Secondly, under the planning model governments sought to specify in detail the nature of the service required and the quality of service delivery. This procedure attempted to achieve much more uniform service delivery amongst the NPOs involved. Finally, a much greater onus on financial reporting was placed on voluntary organizations in an effort to ensure more accountability.

The planning model necessarily meant that 'close relationship' arose between public agencies and NPOs. Lyons (2001, p.185) postulates that this led to 'a failure to develop a more complete sense of nonprofit autonomy and accountability' on the part of voluntary sector organizations involved. Together with ongoing budgetary pressures on government programs, this 'failure' encouraged the evolution of two new models, both of which resembled 'market-style relationships.

Firstly, a 'quasi-voucher model' of funding was initiated that 'created an entitlement for a certain level of fee subsidy…to certain classes of individuals, with the level of subsidy determined by certain predetermined characteristics' (p.186). In effect, policy makers attempted to subsidize consumer demand for prescribed human services from approved organizations in order to generate a market for these services where consumers could make choices on price, quality and other attributes. Under this arrangement, NPOs and private firms could both enjoy official designation as licensed providers and thus competed amongst each other. In essence, using the quasi-voucher model, 'governments were moving toward creating a conventional market occupied by consumers and suppliers, wherein governments strengthened the capacity of consumers to afford market-determined fees and regulated providers to ensure their good quality' (p.187).

Secondly, the 'competitive-tender model' also sought to capture the benefits of market mechanisms by competitive tender whereby voluntary organizations would bid against each other to provide a defined service at a fixed price. This arrangement rested on the critical distinction between government as purchaser and NPO as provider, with targeted individual citizens as consumers. Lyons argues that this model is bound to be problematic since 'although the government is the purchaser, it is not the consumer of the services and is thus not in a position to readily evaluate the appropriateness or the quality of the service' (p.188).

Despite their heavy emphasis on financial aspects of the relationship between government and the voluntary sector, the five models developed by Lyons (2001) appear especially useful to policy makers since they essentially represent stylized descriptions of actual arrangements between Australian governments and the voluntary sector. They thus possess the powerful advantage of having a real-world 'track record' capable of empirical evaluation.

Wolf's 'Non-market' Approach

The theory of 'nonmarket failure' developed by Charles Wolf (1979; 1989) has provided extremely useful insights into the behavior of NPOs. Although mainly concerned with the comparative abilities of markets and governments, Wolf was nevertheless acutely aware of the problems posed by sectorization and the difficulties that this presented from the point of view of public policy making. For instance, in his discussion of the voluntary sector, Wolf (1988, p.91) observes that sectoral categories 'are neither impermeable nor coterminous', and the question thus arises 'whether nonprofit organizations tend to exhibit the characteristics of market or nonmarket organizations, and whether the types and sources of shortfall displayed by nonprofit organizations conform more to those associated with market or nonmarket failure'. Whilst admitting that 'determining exactly where to place nonprofit organizations in the market versus nonmarket categories, or in the spectrum between them, is difficult and ambiguous', Wolf (1989, p. 92) nonetheless argued that 'by and large and with some notable exceptions, nonprofit organizations tend to conform most closely to the characteristics of the nonmarket than to those of the market and hence are more prone to the types of shortcomings or failures associated with the nonmarket' (p.94).

In particular, Wolf pointed to various attributes of nonprofit organizational behavior that seemed to approximate public agencies rather than private firms. For example, NPO decision-making is not usually based on 'explicit, measurable criteria' since the 'purposes they seek to advance are so broad'. Similarly, 'the standards they employ for evaluating actions they take' tend to be 'dominated by a concern with process rather than product' because they lack a financial 'bottom line'. Moreover, 'criteria relating to established and accepted operating procedures' are typically developed to evaluate people and not concrete outcomes (p.93).

It thus seems apparent that Wolf believes that his theory of non-market failure represents a fruitful way of conceptualizing the voluntary sector and its relations with government. But the fact that he does not himself provide a explicit analysis of NPOs using his model might suggest that the theory needs to be modified *mutatis mutandis* to accommodate the voluntary sector.

Breton's 'Competitive Governments' Model

Writing from the perspective of the economic theory of federalism in his seminal *Competitive Governments*, Albert Breton (1998) has propounded an alternative method of conceptualizing the relationship between the state and the voluntary sector. Reduced to its bare essentials, Breton's basic model holds that in a federal system different governmental structures not only compete with each other, and within each other, but they are also in competition with market suppliers and the voluntary sector. In essence, Breton agrees with the fundamental insight of Weisbrod (1988) that the voluntary sector exists to meet product differentiation that derives from government failure. But Breton (1998, p.282) asks the question: 'why is product differentiation generated by nonprofit organizations and not by for-profit enterprises or by government centers of power?' He then attempts to answer this question by arguing that ‘simply because in some circumstances nonprofits are more efficient in providing certain goods and services – in these circumstances they have a comparative advantage’.

Breton (1998) contends that in a modern market economy most goods and services can be produced using a large number of alternative institutional arrangements, including public bureaux, private firms, voluntary organizations, families and partnerships between these different institutions. In practice, actual supply arrangements will be determined by which of these possible institutions, or combination of institutions, can deliver the goods and services in question at the lowest price. Competition between all potential suppliers is the social mechanism through which the least-cost providers of goods and services will be revealed. Thus, ‘the allocation of output among the various supply sources is determined by their relative efficiency, which in turn depends on, among other things, the differential capacity to control free-riding and the differential capacity to acquire information about demand, and therefore on the differential aptitude to forge tight Wicksellian Connections’. The essential reason for this state of affairs derives from the fact that ‘every supply source…limited to families, churches, voluntary organizations, business firms and governments, has to resolve the same fundamental problems of free-riding and of information gathering’ (p.308).

Breton’s model is able to explain a number of phenomena that have perplexed scholars working on the voluntary sector. For example, the proposition that, at any point in time, those institutions actually supplying some good or service must enjoy a comparative advantage can help us explain why the voluntary organizations sometimes provide outputs previously supplied by other institutions. Put differently, it can account for the observed fact that in different countries and in different historical periods the voluntary sector performs different functions. Breton (1998, p.283) puts the argument as follows: ‘The institutions that supply goods and services to people are those that are relatively more efficient…Sometimes the institution is a government center of power or subset of centers, sometimes it is a nonprofit organization, and sometimes it is a kind of nongovernment-nonmarket body different from a nonprofit one’.

Similarly, Breton’s (1998) model can also explain why governments often subsidize the activities of voluntary organizations. Breton argues that ‘subsidies are a contribution to the resolution of the free-rider problem confronting all suppliers’. Government subsidies to voluntary organizations are thus ‘on the same footing as the “legally enforced property rights” governments provide to resolve the free-rider problem in the marketplace where free-riding takes the form of fraud and breach of contract’. Following this logic, Hansmann’s redistribution constraints are a device imposed by governments to control the volume of subsidies and the uses to which they are put’. (p.283).

The notion of relative efficiency, which forms the heart of Breton’s model, has significant antecedents in the literature on microeconomic policymaking. For instance, in his famous critique of the market failure paradigm, Harold Demsetz (1969, p.1) proposed a ‘comparative institutions’ approach that seeks to ‘assess which alternative real institutional arrangements seems best able to cope with the economic problem; practitioners of this approach may use an ideal norm to provide standards from which differences are assessed for all practical alternatives of interest and select as efficient that alternative which seems most likely to minimize the divergence’. In effect, the comparative institutions approach attempts to establish the most efficient institutional method of delivering goods and services on the basis of comparative advantage. It thus represents a policy application of Breton’s model.

Other Approaches

In addition to the various methods of conceptualizing the relationship between government and the voluntary sector that we have discussed above, it is possible to identify at least four further somewhat amorphous approaches to the problem.

Firstly, the *political economy of human services paradigm* focuses on 'the external and internal political and economic processes that shape the organization's character and influential interest groups' (Kramer 2000, p.9). It is an interdisciplinary perspective that examines multiple stakeholders in public, private and nonprofit organizations and their interactions with the external environment. For example, Austin (1988) distinguishes between vertically and horizontally organized human service organizations and then evaluates their capacities for service delivery. He argues that in post-industrial societies goods and services can be produced by almost any domain of the economy, including markets, governments, households and the voluntary sector. In sum, the political economy approach conceptualizes an 'organization as an arena or open system in which various interest groups, or stakeholders possessing needed resources, compete in trying to optimize their particular values' (Kramer 2000, p.8).

A second generic perspective on the voluntary sector can be drawn from the *organizational ecology approach* that applies the logic of evolutionary biology to large populations of organizations, including NPOs. Hannan and Freeman (1989) have argued that ecological theory is especially relevant to categories of organization in which there is strong resistance to change and the environment is characterized by uncertainty. The ecological approach is held to be particularly helpful in analyzing the life cycles of organizational entities in terms of their formation, evolution and mortality. For instance, it has been argued that most organizations, regardless of the form of ownership, transform through the spectrum of entrepreneurial, professional and bureaucratic during the period of their existence.

Neoinstitutionalism represents another broad emerging paradigm that can shed light on relations between the state and the voluntary sector and potentially assist policy makers. Following the earlier tradition of instutionalism, this perspective views voluntary organizations as social institutions blending donors, intermediaries and beneficiaries and it focuses on their 'rules, roles and relationships' as socially constructed abstractions. Advocates of this approach contend that organizations are strikingly similar despite differences in ownership structure and other characteristics (Lowndes, 1996).

Finally, the *mixed and open systems approach* conceptualizes voluntary organizations as 'part of the public space in civil societies' that contributes to human wellbeing as part of a welfare mix comprising public agencies, private firms, NPOs and households (Evers 1995, p.159). Exponents of this nascent paradigm hold that policy makers should first develop policy parameters and objectives and then employ the welfare mix concept to determine the best organizational combination to deliver the desired outcomes. Thus the question of optimality in fusing the contributions of the various sectors should become the centerpiece of the policy decision.

Whilst some of these emerging paradigms may indeed be able to contribute usefully to the problem of understanding the relationship between the state and the voluntary sector in future, at their present premature stage of development it is difficult to see how they can provide operational assistance to policy makers. However, they do at least serve to underscore the complexities of the voluntary sector and the multiple methods of conceptualizing it.

CONCLUDING REMARKS

We have examined ten substantive approaches to the problem of conceptualizing the relationship between government and the voluntary sector, as well as four nascent schools of thought as yet too underdeveloped to yield concrete assistance to policy makers. In evaluating this literature, various general propositions seem pertinent.

In the first place, few of the ten approaches can be said to stem from strong *a priori* theoretical foundations. Certainly some exceptions to this general statement can be identified. For example, Breton's (1998) model derived from his more general conception of competitive governments, where all institutions, including private firms, voluntary organizations and public agencies, compete with each other on the basis of comparative advantage as expressed in their relative efficiencies. As we saw, this meant that his model could generate explanations for various observed phenomena untainted by *ex poste* rationalization. Similarly, Wolf's (1989) model was also blessed with this advantage, although admittedly to a lesser degree. But it had the distinct strength of flowing directly from his theory of non-market failure and thus evinced at least some internal consistency. However, Wolf's conclusion that voluntary organizations fall squarely within the non-market sector is singularly unhelpful to policy makers since one pragmatic outcome of this view is that public agencies and NPOs require the same policy responses from government. Young's (2000) tripartite model has some of the strengths that derive from a solid conceptual core, at least in so far as he links the categories in his model to extant theories of the voluntary sector and some recent work in economic theory. Moreover, in some limited respects the positive externalities model may also be described as derivative of a theoretically sound foundation; it simply abstracts from the diversity of the voluntary sector by depicting the existence of this sector as a merit good with positive externalities for society in the form of social capital formation. In this respect, it derives conceptual credibility from the well-developed and more general theory of externalities and the well-known policy prescriptions that flow from this theory.

Secondly, although the ten substantive approaches all claim to deal with the conceptual relationship between government and the voluntary sector, in fact their purposes appear to be somewhat dissimilar. Thus the JHCNSP 'structural-operational' model seems centrally concerned with identifying the irreducible elements of voluntary organizations rather than constructing their potential relationships with government. While this is surely a worthy pursuit, it provides little assistance to policy makers. Similarly, Salamon's (1981) 'third-party' government model essentially maintains that public agencies and voluntary organizations work in tandem as a an observed empirical fact; whereas this is certainly a useful proposition that removes much misconception, by itself it does not prescribe how appropriate public policies should be developed. By contrast, Lyons' (2001) five models of government financial support, Gronberg's (1987) 'patterns of institutional relations', and especially Gidron's *et al* (1992) typology of government-nonprofit relations all seek to provide a policy framework for determining relationships between government and the voluntary sector. This means *inter alia* they can constitute at least a basis for policy formulation.

In a world of theoretical perfection, social scientists should be able to provide policy makers with a single conceptual model capable of evaluating the potential behavior of private business firms, public agencies, and voluntary organizations in a given range of service provision. This would require the construction and refinement of a unified theory of organizational behavior with the ability to predict *ex ante* organizational performance in a defined socioeconomic context against a variety of efficiency, equity and other apposite criteria. At present no such theory exists and it is improbable in the extreme that it will be developed in the foreseeable future.

This is not to suggest that attempts have not been made to construct a unified theory of organizational behavior. Indeed, scholars in the social sciences, like their compatriots in the physical sciences, have pursued this objective as if it were the Holy Grail. For instance, Oliver Williamson (1985) has developed a comprehensive theory with the notion of minimizing transactions costs as its centerpiece. Similarly, in his *The Ownership of Enterprise*, Henry Hansmann (1996) has sought to develop a universal theory of organizational behavior in which ownership represents a cost-minimizing device. But these and other attempts cannot be said to achieved widespread acclaim in the literature.

In the absence of a unified theory of organizational performance, the question therefore arises as to how rational policy makers should proceed. One possibility is to follow existing theoretical literature and use current behavioral models to try to gain some insight into the likely behavior of different kinds of institutional organizations in some specific area of social service delivery. According to this methodology, the market failure paradigm could be used to adjudge private firms, the government failure model to evaluate public agencies and the received (and admittedly heterogeneous) theory on the voluntary sector to analyze nonprofit organizations. Notwithstanding the difficulties presented by the amorphous and conflicting nature of existing theories on the voluntary sector, this approach has the decided and strong disadvantage of comparing theoretical apples with conceptual oranges. On the other hand, it possesses the distinctive strengths derived from a strong theoretical lineage and a history of scholarly endeavor.

A second diametrically opposed approach is to try to avoid theoretical problems altogether and examine *ex poste* the behavioral efficacy of different institutional organizations from an empirical perspective. But this approach is obviously not without difficulties too. The well-known inseparability of theory from empirics would appear to present intractable problems. Moreover, even if we assume away these difficulties, the vast empirical literature on the implications of differences in organizational ownership provides a visceral demonstration of problematical nature of empirical evidence and the impossibility of achieving 'shut-down' results in socioeconomic research. For example, DiMaggio and Anheier (1990, p. 149) report that this 'research literature is vast and inconclusive'. Similarly, Sloan (1988, p.138) observes that this 'empirical literature reveals little or no difference' with respect to organizational behavior'. Indeed, in the empirical analysis of the voluntary sector, despite concerted empirical efforts aimed at investigating the determinants of voluntary effort, the relative efficiency of NPOs, the socially desirable amount of fundraising, and the effects of tax policy on charitable contributions, about all that is known with some degree of certainty is that 'crowding out' in fundraising appears to exist and the redistributional effects of the operations of nonprofit organizations do not seem significant (Clotfelter, 1992).

On balance, it would thus seem that the most promising way forward to providing assistance to policy makers resides in the more mundane task of building on the existing theoretical work on the voluntary sector and some of the conceptual frameworks we have examined in this paper.

References

Abzug, R. (1999), 'The Nonprofit Sector and the Informal Sector: A Theoretical Perspective', *Voluntas*, 10 (2), pp. 131-149.

Austin, D. (1988), *The Political Economy of Human Service Programs*, Greenwich: JAI Press.

Breton, A. (1998), *Competitive Governments: An Economic Theory of Politics and Public Finance*, Cambridge: Cambridge University Press.

Coleman, J. S. (1988), 'Social Capital in the Creation of Human Capital', *American Journal of Sociology*, **94** (1), 95-120.

Clotfelder, C. T. (ed.) (1992), *Who Benefits from the Nonprofit Sector?*, Chicago: University of Chicago Press.

Demsetz, H. (1969), 'Information and Efficiency: Another Viewpoint', *Journal of Law and Economics*, **82** (4), pp. 713-719.

DiMaggio, P. and Anheier, H. K. (1990), 'The Sociology of Nonprofit Organizations and Sectors', *Annual Review of Sociology*, **16** (1), pp.137-159.

Evers, A. (1995), 'Part of the Welfare Mix: The Third Sector as an Intermediate Area', *Voluntas*, **6** (1), pp. 159-182.

Gidron, B., Kramer, R. M., and Salamon, L.M. (1992), 'Preface', in B. Gidron, R. M. Kramer and L. M. Salamon (ed.), *Government and the Third Sector*, San Francisco: Jossey-Bass.

Gidron, B., Kramer, R. M., and Salamon, L.M. (1992), 'Government and the Third Sector in Comparative Perspective: Allies or Adversaries', in B. Gidron, R. M. Kramer and L. M. Salamon (ed.), *Government and the Third Sector*, San Francisco: Jossey-Bass.

Glazer, N (1971), 'The Limits of Social Policy', *Commentary*, **52** (1), pp.51-58.

Gronberg, K. (1987), 'Patterns of Institutional Relations in the Welfare State: Public Mandates and the Nonprofit Sector', *Journal of Voluntary Action Research*, **16** (1/2), 64-80.

Hansmann, H. (1996), *The Ownership of Enterprise*, London: Harvard University Press.

Hartley, K. and Tisdell, C. (1981), *Micro-Economic Policy*, Brisbane: John Wiley and Sons.

Kolm, S. C. (1977), *Modern Theories of Justice*, Cambridge: MIT Press.

Kramer, R. M. (2000), 'A Third Sector in the New Millenium?', *Voluntas*, **11** (1), pp.1-23.

Lowndes, V. (1996), 'Varieties of New Institutionalism: A Critical Appraisal', *Public Administration*, **74** (2), pp. 181-197.

Lyons, M. (2001), *Third Sector: The Contribution of Nonprofit and Cooperative Enterprises in Australia*, Sydney: Allen and Unwin.

Morris, S. (2000), 'Defining the Nonprofit Sector: Some Lessons from History', *Voluntas*, **11** (1), 25-43.

Musgrave, R. A. and Musgrave, P. B. (1984), *Public Finance in Theory and Practice*, Singapore: McGraw-Hill.

Nagel, S. S. (1999) (ed.), *The Policy Process*, New York: Commack.

Nisbet, R. A. (1953), *The Quest for Community: A Study in the Ethics of Order and Freedom*, New York: Oxford University Press.

Paldam, M. (2000), 'Social Capital: One or Many? Definition and Measurement', *Journal of Economic Surveys*, **14** (5), 629-653.

Putnam, R. D. (1993), *Making Democracy Work: Civic Traditions in Modern Italy*, Princeton: Princeton University Press.

Salamon, L. M. (1995), *Partners in Public Service: Government-Nonprofit Relations in the Modern Welfare State*, Baltimore: Johns Hopkins University Press.

Salamon, L. M. and Anheier, H. K. (1992), 'In Search of the Nonprofit Sector. 1: The Question of Definitions', *Voluntas*, **3** (1), pp. 125-151.

Salamon, L. M. and Anheier, H. K. (1997), *Defining the Nonprofit Sector: A Cross-National Analysis*, Manchester: Manchester University Press.

Sloan, F. (1988), 'Property Rights in the Hospital Industry', in Frech, H. E. (ed.), *Health Care in America*, San Francisco: Pacific Research Institute for Public Policy, pp.103-141.

Weisbrod, B. A. (1998), 'Institutional Form and Organizational Behavior', in W. W. Powell and E. S. Clemens (eds.), *Private Action and the Public Good*, New Haven: Yale University Press, pp. 69-84.

Williamson, O. E. (1985), *The Economic Institutions of Capitalism*, New York: Free Press.

Wolf, C. (1989), *Markets or Governments?*, MIT Press: Cambridge.

Young, D. R. (2000), 'Alternative Models of Government-Nonprofit Relations', *Nonprofit and Voluntary Sector Quarterly*, **29** (1), 149-172.