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## **SOCIAL ORIGINS OF CIVIL SOCIETY: EXPLAINING THE NONPROFIT SECTOR CROSS-NATIONALLY**

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## PREFACE

This is one in a series of Working Papers produced by the Johns Hopkins Comparative Nonprofit Sector Project, a collaborative effort by scholars in over twenty countries to understand the scope, structure, and role of the nonprofit sector using a common framework and approach.

The Working Papers provide a vehicle for the initial dissemination of the work of the Project to an international audience of scholars, practitioners and policy analysts interested in the social and economic role played by nonprofit organizations in different countries, and in the comparative analysis of these important, but often neglected, institutions.

Working Papers are intermediary products, and they are released in the interest of timely distribution of Project results to stimulate scholarly discussion, and to inform policy debates. A full list of these papers is provided on the inside of the back cover.

The production of these Working Papers owes much to the devoted efforts of our project staff, in particular Regina Rippetoe, as the program manager, and Wendell Phipps, the project's secretary. We also want to express our deep gratitude to our colleagues on this project, to the International Advisory Committee that is helping to guide our work, and to the many sponsors of the project listed at the end of this paper.

The views and opinions expressed in these papers are those of the authors and do not necessarily represent the views or opinions of The Johns Hopkins University, its Institute for Policy Studies, any of its officers or supporters, or the series' editors.

We are delighted to be able to make the early results of this project available in this form and welcome comments and inquiries either about this paper or the project as a whole.

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## **SOCIAL ORIGINS OF CIVIL SOCIETY: EXPLAINING THE NONPROFIT SECTOR CROSS-NATIONALLY<sup>1\*</sup>**

### **INTRODUCTION**

Recent research has documented the vital importance that "social capital" and "civic infrastructure" play in both political and economic life (Putnam 1993; Fukuyama 1995). Still far from settled, however, is the question of what it is that encourages, or allows, such infrastructure to develop. To be sure, theories about this abound. What has been lacking, however, has been any capability to put these theories to meaningful empirical test. Even the most basic information about the scale, structure, and composition of the nonprofit sector has been lacking in most countries, and what data have been available have been, as one scholar recently put it, "hardly compatible or comparable" (Seibel 1990:43). The result has been a field day for nonprofit theory. With no real possibility to subject such theories to systematic test, the only real constraint on their development has been surface plausibility, and even this constraint has often been breached. As a consequence, theories have proliferated in number, and often imaginativeness, albeit with little apparent improvement in actual explanatory power.

With the recent completion of Phase I of the Johns Hopkins Comparative Nonprofit Sector Project, which has put in place at least the initial foundations for a systematic, cross-national data base on the nonprofit sector (Salamon and Anheier 1994), it is now possible, for the first time, to subject existing nonprofit sector theories to more serious testing and, more generally, to determine what the preconditions for a vital nonprofit sector really are. This is not to say that this data base will satisfy all theoretical concerns, let alone all actual or potential theorists. The very definition of the nonprofit sector remains highly contested, after all.<sup>1</sup> What is more, inevitable limitations of time and resources, let alone the imagination of the researchers, restricted the range of variables on which systematic empirical and historical data could be assembled even in this ambitious project. Finally, the number of countries on which comparative data are available even through this project remains quite small. Although thirteen countries were included within the project's scope, systematic empirical data could be assembled only on eight,<sup>2</sup> and one of these (Hungary) had to be deleted for the theory-testing purposes here because of its clearly transitional status in 1990, the year to which our comparative data apply.

Even with these limitations, however, the data that emerge from the Johns Hopkins

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<sup>1</sup> For a fuller discussion of the definition used in this project, and the rationale for it, see Salamon and Anheier 1992a; and Salamon and Anheier 1996a.

<sup>2</sup> The eight are: the U.S., the U.K., France, Germany, Italy, Sweden, Hungary, and Japan.

Comparative Nonprofit Sector Project provide a far more fruitful basis on which to assess -- if not to formally test -- existing theories about the nonprofit sector, and to determine the factors that seem to encourage the development of extensive nonprofit sectors, than has heretofore been available. Even a cursory glance at these data, moreover, raises intriguing questions about the dynamics at work. The nonprofit share of employment turns out to be larger in France than in the U.K., for example, despite the fact that the latter has long accorded such organizations special tax and legal advantages while the former outlawed them until the early part of this century. Similarly, the nonprofit sector turns out to be larger in Sweden than in Italy despite the emergence of a full-fledged welfare state in the former and the preservation of a substantial, Church-run social welfare sector in the latter. Finally, the structure of the nonprofit sector in the U.K. shares crucial features with that in Japan despite vast differences between these two societies in terms of social composition and history.

How can we explain these patterns? What accounts for the presence or absence of sizable nonprofit sectors in different societies? More specifically, how valid are the various theories that have been advanced over the past decade or two to explain the presence or absence of nonprofit institutions in different societies and what new theoretical advances are needed to make sense of the patterns that emerge?

The purpose of this article is to answer these questions. To do so, we begin by examining what it is that should be explained--what the unit of analysis should be in cross-national nonprofit research and how it can be operationalized and measured. Next we identify six bodies of theory that can potentially shed light on the causes of nonprofit evolution. Four of these are prominent in the existing nonprofit sector literature and two are adapted from other spheres. We then "test" these theories against the available data to determine which ones have the greatest apparent explanatory power. Finally, we suggest the implications that this analysis seems to hold both for our conceptual understanding of the nonprofit sector and for further research and theory-testing.

What emerges most forcefully from this analysis is the conclusion that many of the standard nonprofit theories, though useful as heuristic devices, are too sweeping and one-dimensional to account for the tremendous complexity of cross-national experience in this field. At a minimum, explanations of cross-national variations in this field must move away from a focus on the nonprofit sector alone and embrace as well the complex interactions between this set of institutions and both the state and the market sectors. In the process, they must come to terms with the multi-dimensional character of this sector and what one author has termed its "embeddedness" in broader social, political, and economic processes (Seibel 1990). This will make the study of nonprofit organizations far more complex, but it will also usefully integrate the field more fully into the study of other aspects of society, where it clearly belongs.

### **WHAT'S TO EXPLAIN?**

The first task in assessing alternative theories about the nonprofit sector is to determine what it is we expect these theories to explain. This is important because a phenomenon as complex as the nonprofit sector has an immense assortment of different facets, each of which could potentially be a focus of concern. Under such circumstances, it is important to be clear about what aspects of this complex phenomenon seem most important, and which we will consequently try to explore.

Two issues are centrally involved here, moreover. The first involves the basic *unit of analysis* to use. The second involves the *dimensions* of this unit that are particularly of interest.

### The Unit of Analysis

So far as the basic unit of analysis is concerned, the fundamental issue in cross-national nonprofit sector research is whether it is meaningful to talk about a distinctive "sector" here at all, and, if so, how it should be defined. Skeptics contend that no such entity really exists, that at best there are particular types of nonprofit organizations that may exist in different national settings, but that comparisons at the sector-wide level are impossible at best and misleading at worst. Even those who concede the existence of a nonprofit "sector" in particular national settings, moreover, often remain skeptical that such an entity can be found elsewhere with sufficient conceptual similarity to sustain meaningful cross-national comparisons. Those who venture into cross-national nonprofit research therefore embark on something of a fool's errand, with little hope of having much to show for their efforts. Even conclusive disproofs of particular theories can easily be dismissed on grounds that the theories were never intended to explain the phenomenon to which they were applied anyway.

To cope with this problem, we pursue a two-pronged strategy here. In the first place, we insist, based on a detailed discussion with colleagues from thirteen countries representing a broad cross-section of levels of development and cultural and religious traditions, that there is a relatively distinct set of institutions that it is reasonable to group together as what we will refer to, following United Nations usage, as "the nonprofit sector,"<sup>3</sup> and that it is possible to examine this sector both descriptively and analytically. As detailed more fully elsewhere (Salamon and Anheier 1992a; 1996a), we define this sector as a collection of entities that share five crucial characteristics, i.e. they are:

1. *Organized, i.e., institutionalized to some extent.* What is important is that the organization have some institutional reality and internal organizational structure to it. This is typically signified by a legal charter of incorporation, but it can also be demonstrated in other ways in countries where legal incorporation is neither common nor readily available.
2. *Private, i.e., institutionally separate from government.* Nonprofit organizations are nongovernmental in the sense of being structurally separate from the instrumentalities of government. This does not mean that they may not receive significant government support or even that government officials cannot sit on their boards.
3. *Non-profit-distributing, i.e., not returning profits generated to their owners or directors.* Nonprofit organizations may accumulate profits in a given year, but the profits must be plowed back into the basic mission of the agency, not distributed to the organizations' owners, members, founders or governing board. Nonprofit organizations are private organizations that do not exist primarily to generate profits, either directly or indirectly, and that are not primarily guided by commercial goals and considerations.

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<sup>3</sup> The United Nations (1993) identifies the "nonprofit sector" as one of four components of a national economy. The other three are government, the business sector, and households. Although we find the U.N. definition of this sector to be problematic for reasons spelled out below, the terminology is sufficiently widespread in national statistical office circles to justify its use here.

4. *Self-governing, i.e., equipped to control their own activities.* Nonprofit organizations must be self-governing and in a position to control their own activities through internal governance procedures, and enjoy a meaningful degree of autonomy.

5. *Voluntary, i.e., involving some meaningful degree of voluntary participation.* To be included in the nonprofit sector, organizations must embody the concept of voluntarism to a meaningful extent.

To keep the project manageable, we decided to exclude two types of nonprofit organizations that are properly part of the nonprofit sector: religious/sacramental organizations and political parties. Accordingly, we added two additional criteria:

6. *Nonreligious, i.e., not primarily involved in the promotion of religious worship or religious education.* This criterion excludes congregations, synagogues, mosques and churches, but leaves church-related and religiously affiliated organizations within the nonprofit sector.

7. *Nonpolitical, i.e., not primarily involved in promoting candidates for elected office.* While this criterion excludes political parties, it preserves advocacy and civil rights and similar organizations as part of the nonprofit sector.

This is not to say that all entities within this sector share these attributes equally, or that they do not differ along other dimensions. To the contrary, the entities within the nonprofit sector differ markedly in size, age, field of activity, type of activity, internal structure, and many other aspects, just as do the entities commonly grouped together as the "business sector." The argument here, rather, is that these entities do share an important set of attributes that, together, set them apart from the other two major segments of society--the market and the state.

While examining this sector as a whole, however, we also take pains to examine its component parts. For this purpose a common classification scheme was developed to group nonprofit organizations at the "sub-sector" level.<sup>4</sup> Following United Nations usage again, the basis of this classification was the "principal activity" of the entity (e.g. education, health, environmental protection, philanthropy). On this basis, twelve broad groupings of nonprofit organizations were established and information gathered about the entities in each of these groupings in each of the countries covered in this project. This approach makes it possible to test various theories not only at the aggregate "sector" level, but also at the "subsector" level, and to do so with respect to the subsectors to which the theories seem most clearly to apply.

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<sup>4</sup> For a detailed discussion of this classification system, see Salamon and Anheier 1992b; and Salamon and Anheier 1996a, 1996c.

## Key Variables

To say that our unit of analysis is the nonprofit sector, and, where appropriate, its component parts, is not yet to say which aspect or aspects of this entity are the appropriate focus of interest. Several such aspects are potentially available, after all--the number of organizations, the nature of the services they provide, the beneficiaries they serve, the scale of their activity, the composition of their governing boards, the size of their memberships, their internal styles of operation, the number of people they employ, the number of volunteers they use, their adherence or non-adherence to certain values, and many more. What is more, a plausible case can be made for the usefulness of virtually all of these. For example, the number of nonprofit organizations in a country--either absolutely or per 1,000 population--is a measure of the ubiquity of this sector. The composition of governing boards can reveal much about how this sector relates to social, economic, and demographic groupings. Data on beneficiaries can provide a basis for determining the extent to which this set of organizations is serving public purposes and is therefore deserving of the tax and other subsidies often made available to it.

Of the numerous facts that can be known about a country's nonprofit sector, however, two seem especially basic. The first of these is the *scale* of operations, both overall and for the constituent parts. The second is the *sources* of support.

**Scale.** So far as scale is concerned, several different measures are possible. In the first place, there are the traditional economic measures of activity: (i) *employment*; and (ii) *operating expenditures*, or turnover. Given the special character of the nonprofit sector, however, another measure is also desirable, namely (iii) *volunteers and volunteer time*. For the purposes of the analysis here, all three of these measures were used. What is more, data were assembled on these dimensions of nonprofit scale both for the sector as a whole, and for its constituent parts. This makes it possible to depict not just the overall size of this sector but also its *composition* and the scale of its separate parts. Because data on volunteers and volunteer time could be generated on only six of the countries, however, it is not possible to provide as complete a test of the various theories with volunteers included as it is with paid employees and expenditures.

**Finances.** As important as the scale of the nonprofit sector is the composition of its financial support. Nonprofit organizations are best known for their "donative" or contributed income. In fact, however, they have at least two other sources of support--the public sector and sales of services or other products. Nonprofit organizations can vary greatly in terms of their reliance on these different types of support, and these variations can be very revealing of the dynamics of nonprofit operations.

## Basic Findings

Using these basic variables, several crucial conclusions emerged from our analysis of the nonprofit sector in eight major countries around the world, as outlined in more detail elsewhere (Salamon and Anheier 1994, 1996b; Salamon, Anheier, Sokolowski, and Associates 1996):

**A Major Economic Force.** First, and most fundamentally, the nonprofit sector as defined above turns out to be a major economic force in the countries we examined. Quite apart from the important social values that they embody, nonprofit organizations account for significant amounts of



both paid and unpaid employment and have sizable operating expenditures. In particular, such organizations employed 11.9 million employees in the eight countries for which we were able to compile empirical data (U.S., U.K., France, Germany, Italy, Sweden, Hungary, and Japan). This represented 4.5 percent of the total labor force in these countries, or close to one out of every 20 jobs, and one out of every 8 service-sector jobs. In addition, these organizations attracted the energies of volunteers whose time translates into the equivalent of close to 5 million additional full-time employees.

In expenditure terms as well, this set of organizations has a substantial scale. Altogether, they accounted for \$614 billion in expenditures in 1990, which was 20 percent larger than the gross national product of Spain and 10 percent larger than the gross national product of Canada (U.S. Census Bureau 1994: 862).

**Cross-National Variations in Scale.** Not only is the nonprofit sector large, but its scale varies from place to place, though this variation is less pronounced than might have been assumed. Thus, as shown in Table 1, as a share of total national employment, nonprofit employment varied from a low of 0.8 percent in Hungary to a high of 6.9 percent in the United States, with Italy, Japan, and Sweden grouped towards the low end of the spectrum, and Germany, the U.K., and France toward the higher end. At the same time, the degree of variation among countries is relatively small: most countries are within one standard deviation (in this case 1.7 percentage points) from the eight-country average of 3.3 percent.

When volunteer staff is included as well, some interesting changes occur. Most notably, Sweden vaults ahead of the other European countries in the scale of its nonprofit sector. In particular, from one of the smallest nonprofit sectors in Europe, it jumps to one of the largest. Evidently the nonprofit sector takes a different form, and potentially assumes a different role, in Sweden as opposed to the other countries we are examining, a point to which we will return below.

**Table 1**  
**Nonprofit Sector Employment as Percent of Total Employment,**  
**With and Without Volunteers, 1990 (\*)**

Country	Percent of Total Employment	
	Paid Employment Only	Paid & Volunteer Employment
Hungary	0.8%	2.1%
Italy	1.8%	2.9%
Sweden	2.5%	8.3%
Japan	2.5%	2.5%
Germany	3.7%	6.1%
U.K.	4.0%	~
France	4.2%	6.8%
U.S.	6.9%	12.8%
<b>Average</b>	<b>3.3%</b>	<b>5.9%</b>

Source: The Johns Hopkins Comparative Nonprofit Sector Project.

(\*) Employment figures are reported in full-time equivalent. Volunteer hours were converted to full-time equivalent numbers of jobs.

A similar pattern of variation is apparent in data on the expenditures of the nonprofit sector. Thus, as shown in Table 2, as a share of gross domestic product (GDP), nonprofit expenditures vary from a low of 1.3 percent in Hungary to a high of 6.4 percent in the United States. However, the remaining countries all fall within one standard deviation (+/- 1.6 percent) of the average (3.6 percent). Compared to their relative rankings in terms of employment, moreover, both Sweden and the United Kingdom rank higher in terms of expenditures. This likely reflects differences in the overall cost structure and composition of the nonprofit sectors in these countries.

**Table 2**  
**Nonprofit Operating Expenditures as a Share of Gross Domestic Product, 1990, By Country**

Country	Nonprofit Operating Expenditures as % of GDP
Hungary	1.3%
Italy	2.0%
Japan	3.2%
France	3.3%
Germany	3.6%
Sweden	4.0%
U.K.	4.8%
U.S.	6.4%
<b>Average</b>	<b>3.6%</b>

Source: Salamon, Anheier, Sokolowski, and Associates, 1996.

**Cross-National Variations in Composition.** Not only does the nonprofit sector vary in scale from place to place; it also varies in composition. The extent of the variation is somewhat "constrained," however. Specifically, four components seem to dominate the sector almost everywhere. In particular, education and research, health, social service, and culture and recreation organizations account overall for nearly 80 percent of sector expenditures. What is more, these four components account for at least 75 percent of sector expenditures in seven of the eight countries, and in the only exception (Sweden) they account for well over half (See Figure 1).

Nevertheless, as Figure 1 also shows, considerable variation is also apparent within this overall pattern. Thus, for example, culture and recreation falls out of the top four fields of nonprofit activity in three of the eight countries (Germany, Japan, and the United States); education falls out in two (Germany and Hungary); and health falls out in three (Hungary, Sweden, and the U.K.). Indeed, in terms of expenditure dominance, it is possible to detect at least four distinct patterns of nonprofit composition among the countries we have examined, although significant variations can still exist within these patterns both in terms of the specific subtypes of organizations that are responsible for the pattern and in terms of the rest of the composition of the sector in each country. More specifically, these four patterns are as follows:

***Japan and the U.K.: Education-Dominant.*** In two of our project countries, Japan and the U.K., education organizations dominate the nonprofit sector in terms of expenditures. Forty-three percent of all nonprofit expenditures in the U.K., and 40 percent of all nonprofit expenditures in Japan, go for education and research. Outside of the education field, however, the Japanese and U.K. nonprofit sectors differ considerably: in Japan, the second largest component is health while in the U.K. it is culture and recreation.

***U.S. and Germany: Health-Dominant.*** If education dominates the nonprofit sectors of Japan and the U.K., health dominates the nonprofit sectors of the United States and

Germany. Over half (53 percent) of all nonprofit expenditures in the United States are made in the health field. This reflects the dominance of nonprofit organizations among American hospitals, over half of which are nonprofit in form. In Germany the health proportion of total nonprofit spending is somewhat smaller, but at 35 percent it still represents the largest single component.

***France and Italy: Social Services Dominant.*** A third pattern of nonprofit sector structure is evident in France and Italy, where the social service field dominates nonprofit expenditures. Thus almost 30 percent of French nonprofit expenditures and about a quarter of Italian nonprofit expenditures are made by social service agencies. The second most important field of nonprofit activity is also identical in these two countries: education. Beyond this, however, these two countries diverge in important respects, with French nonprofits concentrating more on culture and recreation and Italian ones on business and professional activities.

***Sweden and Hungary: Culture and Recreation-Dominant.*** Finally, a wholly different pattern of nonprofit sector structure is evident in Sweden and Hungary. In Sweden, as Figure 1 indicates, over one quarter (27%) of all nonprofit expenditures are in the culture and recreation component of the sector. In Hungary, this subsector accounts for the overwhelming majority (57 percent) of all nonprofit sector expenditures.

If the nonprofit sector appears to be roughly comparable in aggregate scale among the countries examined here, therefore, its composition nevertheless differs considerably from country to country.

**Revenue Structure.** Not only does the composition and scale of the nonprofit sector differ from place to place, but so does its revenue structure. We differentiate three broad classes of nonprofit revenue:

- *private charitable giving*, including gifts from individuals, corporations, foundations, and bequests, whether given directly or through various federated fundraising efforts;
- *government, or public sector, payments*, including outright grants, as well as third-party payments and other contracts and payments by government or public agencies to nonprofit providers for particular services delivered to eligible recipients<sup>5</sup>; and
- *private fees and payments* that the nonprofit receives from the sale of its own services or of some other product directly to a consumer.

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<sup>5</sup> A "third-party payment" is a payment to an individual or someone acting on an individual's behalf to cover the cost of a service that the individual received from a nonprofit provider. It is, in a sense, an indirect payment to the provider. "Third-party payments" are often referred to as "vouchers."

As reflected in Table 3, private giving turns out to be the least important source of nonprofit income in the eight countries we studied, at least in terms of aggregate scale. The average share of total nonprofit income originating with private philanthropic giving is only 10 percent, most of it (about 60 percent) from individuals, with corporations and foundations providing most of the rest. In no country, moreover, is private giving the major source of nonprofit revenue. By contrast, almost half (49 percent) of all nonprofit income in these eight countries comes on average from fees and sales, and this source is the dominant one not only overall but also in six of the eight countries. Finally, a significant 41 percent of nonprofit income comes from government, and this source is actually the major one in two of the countries (Germany and France).

While the revenue structure of the nonprofit sector is fairly uniform at the aggregate level, however, it is far more varied at the subsector level, as Table 3 also shows. Thus, for example, earned income is the dominant source of income for all eight countries in only two fields (culture/recreation and business/professional associations). By contrast, in the fields of health, social services, and international aid, it is dominant in only one or two countries. Similarly, while in aggregate terms government support is the major one in only two countries, in the field of health it is dominant in five countries, and in the field of social services it is dominant in six.

**Table 3**  
**Patterns of Funding Nonprofit Organizations, by Field, by Number of Countries**

Field	Funding Patterns			Total
	Private Fees and Payment Dominant	Public-Sector Payment Dominant	Private-Donations Dominant	
Culture and Recreation	8	0	0	8
Education Research	4	4	0	8
Health	2	5	1	8
Social Services	1	6	1	8
Environment	6	2	0	8
Development, Housing	5	2	1	8
Civic, Advocacy	4	4	0	8
Philanthropy	6	2	0	8
International	1	3	4	8
Business, Professional	8	0	0	8
Other	3	0	1	4
<b>Total</b>	<b>6</b>	<b>2</b>	<b>0</b>	<b>8</b>

Source: The Johns Hopkins Comparative Nonprofit Sector Project

## Conclusion

In short, considerable variations exist in the scale, composition, and financial base of the nonprofit sector among the countries examined here, and among the different components of this sector within the countries.

How can we make sense of these variations? Are the variations random or do they reflect some set of underlying dynamics? If the latter, what are these dynamics and how extensively do they apply? In particular, to what extent do the existing theories of the nonprofit sector account for both the variations and the similarities we observe cross-nationally, either in aggregate terms or at the subsector level, and what additions to these theories must be made to account for the realities that exist?

Before answering these questions, we need to make clear what the available menu of potential explanations looks like and to which explanatory variables and resulting hypotheses they draw our attention.

### **THE CANDIDATES: SIX THEORIES IN SEARCH OF VALIDATION**

As noted earlier, the nonprofit field has attracted a rich outpouring of theoretical interest in recent years as scholars have sought to explain the curious persistence, and recent resurgence, of this long-neglected backwater of social and economic life (see Salamon 1992; Anheier and Seibel 1990; DiMaggio and Anheier 1990; and BenNer and Gui 1993 for summary discussions of these theories). Virtually every aspect of this sector consequently has a rash of potential theories to explain it, from the external relations of boards to the inner motivations of private donors.

For our purposes here, however, six bodies of theory seem especially relevant since they speak to the overall presence and scale of this set of institutions and seem at least potentially testable. Four of these theories were developed specifically for the nonprofit sector field and two are borrowed from other fields because of the potential contribution they can make to the subject at hand. In the balance of this section we briefly summarize these alternative theoretical approaches and identify the specific testable hypotheses they seem to suggest. In a subsequent section we then expose these hypothesis to empirical testing.

#### **1) Heterogeneity Theory**

Perhaps the dominant theoretical perspective in the nonprofit field until relatively recently has been the one developed by economist Burton Weisbrod to reconcile the persistence of nonprofit organizations with classical economic theory (Weisbrod 1977). Known variously as the "market failure/government failure" or "heterogeneity" theory, this line of thought begins with the well-known observation in classical economics that the market, for all its virtues, has an inherent limitation in producing so-called "public goods," i.e. goods that are available to all whether or not they pay for them. This "market failure" is the justification in classical economic thought for the presence of government, which exists to satisfy the demand for public goods left unsatisfied by the market system. As Weisbrod points out, however, government can perform this role in a democracy only when a majority of voters support the production of a particular public good. Where

considerable differences of opinion exist about which public goods to produce, however, it may be difficult to generate such majority support and considerable unsatisfied demand for public goods may consequently persist. Such "government failure" is most likely, moreover, where considerable heterogeneity exists in a population, and where differences of opinion are therefore most likely to exist about which public goods to generate through the public sector. In such circumstances, people will turn to nonprofit organizations to supply the public goods they cannot secure through either the market or the state. Nonprofit organizations therefore function to meet the unsatisfied demand for collective goods left behind as a result of failures of both the market and the state.

Three specific hypotheses flow from this line of theory, each of which can be tested at the aggregate level and at the level of particular subsectors. In the first place, we would expect the size of the nonprofit sector in a country to vary directly with the degree of heterogeneity in the population, as measured in terms of religious or ethnic diversity. While this relationship could be expected to hold at the aggregate level, it could be expected to apply with particular force to the field of education, where concerns about particular ethnic, religious, and cultural norms are typically most intense. Hence:

**Hypothesis 1A: The greater the diversity of a population, the larger the nonprofit sector.**

**Hypothesis 1A\*: The greater the diversity of the population, the larger the education component of the nonprofit sector.**

In the second place, this line of thinking would lead us to expect an inverse relationship between the size of the nonprofit sector and the scale of governmental provision of collective goods. This is so because this theory predicts that the nonprofit sector is a response to failures of the state to provide the kinds of collective goods that people want but that the market is unable to provide. To the extent that the government is providing such collective goods, the need for nonprofit provision would decline. Hence:

**Hypothesis 1B: The greater the level of government social welfare spending, the smaller the nonprofit sector.**

**Hypothesis 1B\*: The greater the level of government social welfare spending, the smaller the nonprofit education sector.**

Finally, the market-failure/government failure theory would lead us to expect that the nonprofit sector would be funded mostly out of private charitable contributions. This is so because this theory views the nonprofit sector as emerging from demands for public goods not being met by either the market or the state. Under these circumstances, there would be no reason to expect the resulting nonprofit organizations to be financed either through market transactions or governmental subsidies. To the contrary, to the extent such demands are satisfied beyond the realms of either government or the market, the most likely source of support is voluntary contributions. Hence:

**Hypothesis 1C: The greater the diversity of the population, the greater the nonprofit reliance on private giving as a source of support.**

**Hypothesis 1C\*: The greater the diversity of the population, the greater the reliance of nonprofit education organizations on private giving as a source of support.**

## 2) Supply-Side Theory

Where the "heterogeneity" theory focuses exclusively on the unsatisfied demand for public goods left by failures of the market and the state, a second body of theory treats this as a necessary but not sufficient condition to explain the variations in nonprofit development. According to this "supply-side" theory, a second condition is needed for nonprofit organizations to emerge: namely, the presence of "social entrepreneurs," people with an incentive to create nonprofit organizations to meet such demand (James 1987). The appearance of such individuals is not random, moreover. It is most likely under particular circumstances. One of the most common of these circumstances is the presence of religious competition, where one or more religious bodies is vying to attract adherents. In such circumstances, religious zealots have an incentive to form nonprofit organizations as a way to attract adherents to their cause. Religions in general, and proselytizing religions in particular, have traditionally had a vested interest in providing such goods and services, and therefore created the institutions to do so. Their aim, as James points out, is not to maximize economic returns but to seek the greatest number of adherents by offering services that these potential adherents might find attractive, such as health care or education.

This line of theory would lead us to expect the nonprofit sector to be most highly developed where religious competition is most intense.<sup>6</sup> What is more, this relationship should apply particularly strongly to the field of education since this is where religious competition is often most evident. Hence:

**Hypothesis 2A: The greater the level of religious competition, the larger the nonprofit sector.**

**Hypothesis 2A\*: The greater the level of religious competition, the larger the nonprofit education sector.**

This supply-side theory also has implications for expected patterns of nonprofit finance. In particular, like the market-failure/government failure theory on which it depends, the supply-side theory assumes that charitably inclined individuals have an opportunity to win adherents by founding nonprofit institutions in fields where neither the market nor the state is providing needed services or support. From this it follows that this line of theory would posit a positive relationship between the potential supply of nonprofit entrepreneurs and the extent of nonprofit reliance on private giving. Hence:

**Hypothesis 2B: The greater the extent of religious competition, the greater the nonprofit reliance on private giving as a source of support.**

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<sup>6</sup> Proselytizing clergy are, of course, only one type of "moral entrepreneurs" with an incentive to create nonprofit organizations. Identifying alternative types without falling into tautology problems is difficult, however. In addition, at a certain point the "supply-side" theory, in its search for social groupings with a political or ideological incentive to form nonprofit organizations, can merge into the "social origins" theory, as will become clear below.



**Hypothesis 2B\*: The greater the extent of religious competition, the greater the reliance of nonprofit education organizations on private giving as a source of support.**

### 3) Trust Theories

A third line of theoretical analysis finds the source of nonprofit activity not in the failure of markets and governments to supply a sufficient quantity and range of collective goods, but in another “market failure,” namely “contract failures” arising from “information asymmetries” often facing consumers. In many transactions, consumers lack the information they need to judge the quality of the goods or services they are purchasing. This can occur because the purchaser is not the same person as the consumer (e.g. the purchase of nursing home care by children for an elderly parent), or because the service in question is inherently complex and difficult to assess.<sup>7</sup> In such cases, purchasers seek alternative bases for trust in the quality of the resulting service. One such basis is the nonprofit sector. Because of the “nondistribution constraint,” i.e. the prohibition on distribution of profits to owners, nonprofit organizations may be more trustworthy, and more likely to serve client needs, since they are not in a field just for the profits (Hansmann 1980, 1987). Accordingly, nonprofit status functions as a proxy for the market signaling the quality of output.<sup>8</sup>

Several hypotheses flow from this line of thinking. In the first place, we would expect that the scale of the nonprofit sector would vary inversely with the level of trust in the business sector in a society. The greater the level of that trust, the more confident people will be to secure the services they need through the market system and therefore the less they will feel obliged to turn to the nonprofit sector. What is more, this will be particularly true in the fields of health and social services, where information asymmetries are likely to be most acute. Hence:

**Hypothesis 3A: The higher the level of trust in business in a society, the smaller the nonprofit sector.**

**Hypothesis 3A\*: The higher the level of trust in business in a society, the smaller the nonprofit health and social services subsectors.**

Because the services secured through the nonprofit sector according to this theory would likely be provided through the business sector if sufficient trust were present, it follows that the financing of these services is likely to take a more commercial form as well. This suggests that the absence of trust would be associated with a nonprofit sector able to secure a larger share of its income from fees and service charges. Hence:

**Hypothesis 3B: The lower the level of trust in business in a society, the more likely the**

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<sup>7</sup> Other circumstances where this trust problem arises include situations where: a) beneficiaries are unknown and cannot be contacted easily, e.g. recipients of relief efforts overseas; b) beneficiaries may provide inadequate feedback for the quality of services, e.g. patients in mental hospitals and some social services; c) donations cannot be matched with specific services, e.g. advocacy and lobbying; and d) services are highly complex and low quality poses high risks for customers, e.g. medical services (Krashinsky 1986).

<sup>8</sup> A variant of this theory views nonprofit organizations as vehicles for affected stakeholders to gain delivery of services to third parties (BenNer and Gui 1993).

**nonprofit sector is to be financed by fees and service charges.**

**Hypothesis 3B\*: The lower the level of trust in business in a society, the more likely the nonprofit health and social services subsectors are to be financed by fees and service charges.**

#### **4) Welfare State Theory**

The preceding theories all take as given that the expansion of state-provided welfare services displaces nonprofit organizations, but they leave unanswered the question of what accounts for the expansion of state-provided social welfare services in the first place. To answer this question, it is necessary to resort to the substantial body of literature that has emerged on the modern welfare state.

Generally speaking, this literature treats the nonprofit sector, at best, as a residual category. In fact, conventional welfare state approaches all but ignore the role of the nonprofit sector both historically and in relation to current policy debates and developments (Flora and Heidenheimer 1981; Offe 1984; Hicks and Swank 1992; Huber, Ragin and Stephens 1993). To the extent that they treat the nonprofit sector at all, these theories view it as an essentially premodern mechanism for dealing with social problems that, like the family, the Church, and the feudal lord, lose their function with the growth of the market system and the expansion of the role of the state to deal with economically extraneous populations. Thus, for example, Quadagno (1987:112) points out that "as industrialization proceeds, it creates new needs for public spending by reducing the functions of the traditional family and by dislocating certain categories of individuals whose labor becomes surplus--the very young, the old, the sick, the disabled... Because traditional societal institutions are unable to meet the needs of these vulnerable individuals, the state expands more or less automatically...." In this line of thinking, the expansion of the state is an almost automatic byproduct of economic development (Flora and Alber 1981). It was for this reason that Titmuss (1974) labeled countries like the United States as "residual welfare states," since they had not yet established the level of welfare guarantees that their level of economic development would suggest and retained premodern forms of reliance both on market and nonprofit solutions to social welfare problems.

Traditional welfare state theory would thus lead us to expect that the greater level of economic development, the more extensive the state provision of social welfare services; and the more extensive the state provision of social welfare services, the smaller the nonprofit sector. Hence:

**Hypothesis 4A: The higher the level of income per capita, the smaller the nonprofit sector in a country.**

#### **5) Interdependence Theory**

Both the welfare state theory and the market failure/government failure thesis that underlies the heterogeneity and supply-side theories take as given that the relationship between the nonprofit sector and the state is fundamentally one of conflict and competition. The persistence of a nonprofit sector, in this view, is a byproduct, at best, of inherent limitations of the state; and, at worst, of successful resistance to efforts by the state to obliterate socially desirable bases of pluralism and diversity. Depending on the political persuasion of the observer, the extensive presence of the

nonprofit sector is therefore seen as a boon to liberty or a denial of basic social protections and hence a source of persistent inequality.

This "paradigm of conflict" (Salamon 1995) is not the only way to view the relationship between government and the nonprofit sector, however. Side-by-side with the potential sources of conflict are important elements of potential interdependence and partnership as well. Indeed, there are strong reasons to expect the latter to dominate the relationship (Salamon 1987a; 1987b). For one thing, nonprofit organizations are often active in a field before government can be mobilized to respond. They therefore often develop expertise, structures, and experience that governments can draw on in their own activities. Beyond that, nonprofit organizations often mobilize the political support needed to stimulate government involvement, and this support can often be used to ensure a role for the nonprofit providers in the fields that government is persuaded to enter. Finally, for all their advantages, nonprofit organizations have their own significant limitations that constrain their ability to respond to public problems. In addition to "market failure" and "government failure," in other words, there is "voluntary failure"--i.e. inherent limitations of the voluntary sector as a mechanism for meeting public needs. These include "philanthropic insufficiency," the difficulty voluntary organizations have in generating the resources often needed to "scale up" their operations; and "philanthropic paternalism," the inability these organizations have in establishing rights to benefits and hence the difficulty they have in fostering a true sense of self-reliance.

Under certain circumstances, therefore, close cooperative relationships can be forged between the nonprofit sector and the state in addressing public problems. This can occur where, for ideological or other reasons, resistance to direct state action is strong yet demands arise for protections from particular social or economic ills; or where support from those associated with the nonprofit sector becomes crucial to enhance the role and power of the state. Under either circumstance, we would expect a positive relationship between government spending and the scope of the nonprofit sector. What is more, since government is most likely to turn to the nonprofit sector for assistance in delivering basic human services, we would expect this relationship to hold most strongly in the fields of health and social services. Hence:

**Hypothesis 5A: The greater the government social welfare spending the larger the nonprofit sector.**

**Hypothesis 5A\*: The greater the government social welfare spending the larger the nonprofit health and social services subsectors.**

Because government is viewed under this theory as a potential source of financial, and not just political, support for the nonprofit sector, moreover, it follows that if this theory holds, the government share of nonprofit income should be higher also where overall government spending is higher. Hence:

**Hypothesis 5B: The greater the government social welfare spending, the higher the government share of nonprofit income.**

**Hypothesis 5B\*: The greater the government social welfare spending, the higher the government share of nonprofit health and social service subsector income.**

## 6) Social Origins Theory

While the interdependence theory outlined above acknowledges the possibility of a cooperative relationship between the nonprofit sector and the state, it does not really specify the circumstances under which such a relationship is most likely to emerge. Similarly, the other theories outlined above assume a degree of flexibility in institutional choice that seems belied by the historical record. Choices about whether to rely on market, third-sector, or state provision of key services are not simply made freely by individual consumers in an open market as advocates of the economic theories seem to assume. Rather, these choices are heavily constrained by prior patterns of historical development that significantly determine the range of options available at a given time and place.

This perspective on the dynamics of institutional choice is nicely reflected in the work of Gøsta Esping-Andersen (1990) on the origins of the modern welfare state, and more generally in the work of Barrington Moore, Jr. (1966) on the "social origins" of fascism and democracy. Central to this line of thinking is the notion that complex social phenomena like the emergence of the "welfare state" or "democracy" cannot easily be understood as the product of the unilinear extension of a single factor, such as industrialization or working class movements. Rather, much more complex inter-relationships among social classes and social institutions are involved. As Esping-Andersen (1990:110) puts it:

We know already that a variety of historical forces has played a decisive part in the formation of welfare states; this is almost certainly why they differ, yet cluster as they do. The extraordinary power of the Church, the aristocracy, and an authoritarian state in early continental European capitalism is certainly a key to the explanation of this regime-type; in converse, the weakness of absolutism and the dominance of a laissez-faire-inspired bourgeoisie in the Anglo-Saxon nations goes a long way in accounting for the 'liberal' regime. In both cases, social policy was never neutral, but part of a more general campaign to weaken, or absorb, the socialist impulse and to secure lasting institutionalization of politically preferable principles of social organization.

On the basis of this mode of analysis, Esping-Andersen identifies three more or less distinct types of welfare "regimes"-- (1) the "liberal" welfare state common in the Anglo-Saxon countries and characterized by limited, means-tested assistance with strict entitlement rules; (2) the "corporatist" welfare state more common on the continent of Europe in which the state supplies welfare assistance but preserves many of the status differences of pre-modern society; and (3) the "social democratic" welfare state of the Nordic countries characterized by universalism and a separation of welfare provision from the market system ("decommodification"). Each of these, in turn, reflects a particular constellation of three key factors: (1) the nature of working class mobilization; (2) the kinds of coalitions working class elements are able to forge; and (3) the posture of new middle class elements toward welfare provision (Esping-Andersen 1990: 31-32).

In *Social Origins of Dictatorship and Democracy*, Barrington Moore, Jr. applies a similar mode of analysis to identify the set of social forces most likely to be associated with the emergence of democracy, and of what we would now term a vibrant "civil society." Central to this outcome, Moore argues, are three pre-eminent factors: first, a royal absolutism held in rough check by strong landed elites; second, the emergence of a vigorous and independent urban middle class to challenge

the power of the landed elements themselves; and third, a solution to the agrarian problem that releases the mass of the population from the land (Moore 1966: 413-432).

While neither Moore nor Esping-Andersen applies his analysis to the question of the appearance and growth of the nonprofit sector, there are strong reasons to believe that the mode of analysis they utilize should have considerable relevance to this question. As Seibel (1990: 46) has reminded us, nonprofit organizations "are not only providers of goods and services but important factors of social and political coordination." As a consequence, they do not float freely in social space. Rather, they are firmly "embedded" in prevailing social and economic structures, often serving as "the knots within networks of elites with reputation, finance, and power." Work on the Johns Hopkins Comparative Nonprofit Sector Project has made clear that such organizations have deep historical roots in virtually every one of the societies we examined. The inter-relationships between this sector and the Church, to cite just one well-known example, have been especially pervasive, and voluntary institutions have therefore been fully caught up in the broader struggles between the Church and secular authorities that animated European history for much of the Reformation and Enlightenment, and that survived well into the twentieth century. Where Church authorities reached a *rapprochement* with civil authorities, as was the case, for example, in Bismarck's Germany, voluntary institutions could be expected to play a much stronger role even with the growth of state-sponsored welfare. By contrast, where Church authorities were domesticated, as was the case in Sweden and Italy, or overwhelmed as in the case of France, we would expect church-related welfare to be absorbed by the state and voluntary institutions to play a much smaller role, particularly in the provision of human services.

This line of argument suggests that the contours of third-sector development go beyond the simple "large" vs. "small" dimensions of standard empirical research. Subtler questions about the role of this set of institutions in prevailing social structures are also important. At the very least, it should be clear that there is more than one route toward the creation of a sizable nonprofit sector. Indeed, modifying Esping-Andersen's analysis to incorporate the nonprofit sector, it is possible to identify four more or less distinct models of nonprofit development, four types of "nonprofit regimes," each characterized not only by a particular state role, but also by a particular position for the third sector.

Table 4 differentiates these regimes in terms of two key dimensions--first, the extent of government social welfare spending; and second, the scale of the nonprofit sector. Thus, in the so-called *liberal model*, low government social welfare spending is associated with a relatively large nonprofit sector.<sup>9</sup> This is the model around which much of the prevailing theory of the nonprofit sector has been framed. It features a significant ideological and political hostility to the extension of government social welfare protections and a decided preference for voluntary approaches instead. The upshot is a relatively limited level of government social welfare spending and a sizeable nonprofit sector. Such regimes are most likely where middle class elements are clearly in the ascendance, and where opposition either from traditional landed elites or strong working class movements has either never existed or been effectively held at bay.

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<sup>9</sup> Although we utilize some of Esping-Andersen's terms here, it should be clear that we use them to refer to different types of state-nonprofit relationships rather than to different types of social welfare and pension policies as is done by Esping-Andersen.

**Table 4**  
**Model of Third Sector Regime**

<b>Government Social Welfare Spending</b>	<b>Nonprofit Scale</b>	
	<b>Low</b>	<b>High</b>
<b>Low</b>	Statist	Liberal
<b>High</b>	Social Democratic	Corporatist

At the opposite extreme is the *social democratic model*. In this model, state-sponsored and state-delivered social welfare protections are quite extensive and the room left for service-providing nonprofit organizations quite constrained. This type of model is most likely where working class elements are able to exert effective political power, albeit typically in alliance with other social classes. While the upshot is a limited service-providing nonprofit sector, however, it is not necessarily a limited nonprofit sector overall, as some accounts would suggest. To the contrary, given the political battles likely to be involved in the extension of state-provided welfare protections, we can expect nonprofit organizations to still be quite active in such societies, but with a significantly different role, a role not as service providers but as vehicles for the expression of political, social, or even recreational interests.

In between these two models are two additional ones, which have tended to be overlooked in prevailing theories, but which may actually be most pervasive. As reflected in Table 4, both of these are characterized by strong states. However, in one, which we can characterize as the *corporatist* model, the state has either been forced or induced to make common cause with nonprofit institutions, so that nonprofit organizations function as one of the several “pre-modern” mechanisms that are deliberately preserved by the state in its efforts to retain the support of key social elites while preempting more radical demands for social welfare protections. This was the pattern, for example, in late nineteenth century Germany, when the state, confronting radical demands from below, began to forge alliances with the major churches and the landed elites to create a system of state-sponsored welfare provision that over time included a substantial role for nonprofit groups, many of them religiously affiliated (Anheier and Seibel 1996). What this suggests is that the relationship between government and the nonprofit sector may be more *curvilinear* than *linear*, with the scale of the nonprofit sector decreasing with the growth of government social welfare spending in “liberal” regimes, but *increasing* with the growth of government social welfare spending in “corporatist” regimes. The result is the paradox identified in our data but overlooked in most of the prevailing theories--a sizeable nonprofit sector in the presence of a high level of government social welfare spending.

The fourth possible model is what we might term the *statist model*. In this model, the state retains the upper hand in a wide range of social policies, but not as the instrument of an organized working class, as in the social democratic regimes. Rather it exercises power on its own behalf, or on behalf of business and economic elites, but with a fair degree of autonomy sustained by long traditions of deference and a much more pliant religious order. In such settings, limited government social welfare protection does not translate into high levels of nonprofit action, as in the liberal regimes. Rather, both government social welfare protection and nonprofit activity remain highly constrained.

Needless to say, these nonprofit sector regime types are heuristic devices intended to demarcate broad tendencies. Significant variations can therefore exist among countries that fall in any particular grouping. In addition, the particular constellations of social, economic, and historical developments that lead to these different regimes can differ from place to place. Thus, middle class elements can be weak because of a strong state or because of powerful landed elements that keep them under control. Whichever is the case, however, the prospects for a *liberal* model are not good. More likely is either a *corporatist* or *statist* outcome depending on a variety of other social and historical circumstances. Though the resulting “models” are far from being completely distinct, therefore, this framework, and the social origins theory that lies behind it, still offers a potentially useful way to distinguish a variety of pathways of third-sector development and to integrate a significant range of relevant social and historical reality into an explanation of third sector scale and role. In the process it helps to unravel a number of critical anomalies left behind by the other theoretical approaches.

Although the predictions generated by this model are harder to capture in testable propositions, moreover, such propositions are possible. Thus, for example, this theory would lead us to expect that in liberal and social democratic regimes the size of the nonprofit sector will vary inversely with the scale of government social welfare spending whereas in corporatist and statist regimes this relationship will be direct, with nonprofit organizations growing as government grows. This is so because government and the third sector are perceived as alternatives in the liberal and social welfare models but as partners in the corporatist model. For this reason as well we would also expect the financial base of the sector to vary by regime type. In both liberal and social democratic regimes, the nonprofit sector is likely to be financed more heavily by private charitable contributions. This is so because, in both, government and the third sector are perceived as alternative mechanisms for meeting public needs, leaving the nonprofit sector to be funded, if at all, out of essentially private sources. In the corporatist model, by contrast, extensive cooperation between government and the nonprofit sector is anticipated, so that governmental sources are likely to be far more important. Finally, in the statist model, neither private philanthropy nor state involvement is anticipated, leaving the nonprofit sector to secure support, if at all, through essentially commercial activities. Hence:

**Hypothesis 6A: The relationship between government social welfare spending and the scale of the nonprofit sector is affected by the type of nonprofit regime that exists: in *corporatist* and *statist* regimes this relationship is direct (the higher the government social welfare spending, the larger the nonprofit sector); in *liberal* and *social democratic* regimes, it is inverse.**

**Hypothesis 6B: The pattern of nonprofit finance depends on the type of nonprofit regime. In both *liberal* and *social democratic* regimes, private giving is likely to dominate. In *corporatist* regimes government support is likely to dominate. And in *statist* regimes, fees and service charges are likely to dominate.**

### **APPLYING THE THEORIES: TOWARD AN EXPLANATION OF NONPROFIT SIZE AND FINANCES**

The theories outlined above do not, of course, exhaust the possible theoretical perspectives that can be brought to bear to explain the size, composition, and financing of the nonprofit sector at the international level. Many other factors and bodies of theory are also potentially available. For example, the scale of the nonprofit sector may be affected by the nature of the legal environment within which these organizations are required to operate. The more favorable this environment, the more likely a sizable nonprofit sector is to emerge. Similarly, the more supportive tax and other legal arrangements are for donations to nonprofit organizations, the more extensive charitable contributions are likely to be as a share of nonprofit revenue.

While the factors and theories identified here are far from exhaustive, however, they certainly represent the major theoretical perspectives in this field and, in the case of the social origins theory, in related fields. How effectively do these theories account for the patterns of third-sector growth and composition reflected in our data? To what extent are the factors identified in these theories systematically related to cross-national differences in the size, composition, and revenue base of the nonprofit sector?

To answer these questions, we converted the various theories into operational terms and located suitable data with which to measure the key explanatory variables these theories identified as important. We then developed a series of "scattergrams" and associated "regression lines" to display the resulting relationships in visual form. Where necessary, the various variables were "standardized" in order to permit us to compare the slopes of the resulting regression lines in the same basic terms.<sup>10</sup> Where appropriate, moreover, we developed cross-tabulation tables to portray the data and avoid overstating the impact of one or two "outliers." In the discussion below we report the results for each of the six theories identified above, noting first how the key explanatory variables were measured and then what the relationship each has with the features of the nonprofit sector that are of interest. For the purpose of these tests we generally measured the scale of the nonprofit sector in terms of full time equivalent paid employment. However, the tests were also run including volunteer employment and the latter results are reported as well where they differ significantly.

#### **Caveats**

Before reporting the results of this analysis, several caveats need to be acknowledged. Most importantly, it should be clear that the number of observations available to us even in this data set is too limited to prove or disprove any theory with any definitiveness. Altogether, we developed systematic comparative data on the variables of interest to us on only eight countries. One of these--Hungary--ultimately had to be excluded from the analysis here, moreover, because its recent history of Communist control so interrupted the normal pattern of development of its nonprofit sector as to

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<sup>10</sup> Since the different variables are measured in different metrics, the numerical value of the slope of the regression equation can differ even though the actual slope of the line is identical between two variables. Thus, for example, our measure of ethnic heterogeneity is a "Gini" index that varies from 0 to +1. By contrast, our measure of government social welfare spending as a share of gross domestic product varies from 12 percent to 39 percent. To overcome this problem, we converted all independent variables to the same metric ranging from 0 to 100 and then recomputed the slopes on this basis (see Tables 6 and 8). Figures 2-7 show the "unstandardized" coefficients.



render it largely irrelevant to the theories under scrutiny here. With so few observations, measures of statistical significance have no real meaning. The most that can be done, therefore, is to identify "tendencies" in the data that will need to be verified more fully through further data gathering and research.

In the second place, it was often difficult to identify operational expressions for many of the concepts embodied in some of the leading theories, and then to locate data that could adequately measure the concepts in a form suitable for theory testing. Although we feel fairly confident in the measures we have developed, we are painfully aware that they may capture only one aspect of the complex concepts to which they apply and may need to be supplemented with additional indicators.

Thirdly, in view of the limitations of the data, the measures of relationship we use here are necessarily far more basic than is desirable given the complexity of the phenomenon we are trying to explain. For one thing, we are reduced to assessing factors individually rather than constructing the complex "multiple regression" models that we suspect it would take to unravel the forces at work. In addition, we test for linear relationships when in fact many of the dynamics at work may be curvilinear instead.

Finally, as noted earlier, there are many aspects of the nonprofit sector that lie well beyond the scope of our interest here and we should keep in mind that none of the theories will be able to explain all relevant aspects of the nonprofit sector. Typically, theories emphasize some concerns over others, and in the following we will assess each theory only in regard to its focal explanatory objective, and not hold them responsible for shortcomings that fall outside their scope.

Taken together, these caveats serve to underscore the preliminary character of the analysis offered here. Even so, enough interesting relationships emerge to give us some confidence that, however preliminary, the analysis should still provide a fruitful stimulus to the more complete theory-testing that this field desperately needs. Let us, therefore, examine what this analysis reveals.

### **1) Heterogeneity Theory**

The central premise of heterogeneity theory, as outlined in Table 5, is that the nonprofit sector emerges as a byproduct of market and government failures that leave unsatisfied demands for collective goods. The greater the diversity of a population and hence the more numerous the different conceptions of the "good life" and of the desirable bundle of public goods, the larger the nonprofit sector that this theory predicts. In addition, the larger the government social welfare spending the smaller the nonprofit sector should be. Finally, to the extent that the nonprofit sector reflects private responses to market and government failures, then greater heterogeneity should also be associated with greater nonprofit reliance on private philanthropic support.

**Table 5: Synoptic Presentation of Major Nonprofit Sector Theories**

THEORY	SUMMARY	MAJOR HYPOTHESES		
		<i>Scale</i>	<i>Fields Most Affected</i>	<i>Nonprofit Finance</i>
<i>Heterogeneity</i>	Unsatisfied demand for public and quasi-public goods in situations of demand heterogeneity leads to emergence of nonprofit providers	Size of the nonprofit sector varies with the degree of demand heterogeneity	Education	Demand heterogeneity leads to greater reliance on private donative income relative to other sources of revenue
<i>Supply Side</i>	Nonprofit organizations are a reflection of demand heterogeneity served and created by entrepreneurs seeking to maximize nonmonetary returns	The greater the level of religious / ideological competition, the larger the nonprofit sector	Education	The greater the level of religious / ideological competition, the greater the reliance of private donative income on nonprofit organizations relative to other sources of revenue
<i>Trust</i>	Nondistribution constraint makes nonprofit organizations more trustworthy under conditions of information asymmetry which makes monitoring expensive and profiteering likely	The higher the levels of trust in business in a society, the smaller the nonprofit sector	Health, Social services	The lower the level of trust in business in a society, the greater the importance of private fees & payments in nonprofit sector revenue
<i>Welfare State</i>	Industrialization leads to the modern welfare state which "crowds out" private nonprofit providers	Size of the nonprofit sector varies inversely with the level of per capita income	Health, Social Services	[theory implies no specific hypothesis]
<i>Interdependence</i>	Because of (initially) lower transaction costs, nonprofit organizations precede government in providing public benefit goods, but due to "voluntary failures" develop synergistic relations with the public sector over time	The size of the nonprofit sector varies with the amount of public sector social welfare spending	Education, Health, Social Services	The greater the scale of government social welfare spending, the greater the public sector share of nonprofit finance
<i>Social Origins</i>	The size and structure of the nonprofit sector are a reflection of its "embeddedness" in a complex set of relationships, classes, and regime type	The relationship between level of government spending and size of nonprofit sector depends on the type of welfare regime	Social Services, Education, Culture & Recreation	The revenue pattern of nonprofit sectors depends on the type of welfare regime

To test the first of these hypotheses, we computed a Gini index of ethno-linguistic diversity based on data available in the Britannica World Data (1991-1993) series and related this index to our estimate of nonprofit employment as a share of total employment, both for the nonprofit sector as a whole and for the education subsector where this theory is supposed to apply with particular force.<sup>11</sup> To test the second, we related the level of government social welfare spending as a share of gross domestic product to the nonprofit share of total employment, again both generally and in the education subsector. Finally, to test the third, we related the Gini index of ethno-linguistic diversity to the share of nonprofit income that comes from private giving.

The results, reflected in Table 6, give moderate support to the heterogeneity thesis. The slope of the line linking ethno-linguistic diversity to the size of the nonprofit sector is steeper than that for any of the other variables we tested and is in the expected direction. This is evident in Figure 2, which provides a scattergram of the countries in terms of these two variables. Generally speaking, as countries increase in ethnolinguistic heterogeneity, the size of their nonprofit sectors, measured in terms of full-time employment as a share of total employment, increases as well. Two countries--Italy and Sweden--seem to defy this pattern, however. Both of them have levels of heterogeneity much greater than Japan and the U.K. yet have nonprofit sectors that are considerably smaller. One reason for this deviation, however, may be the use of paid employment as the measure of nonprofit scale. When we incorporate volunteer labor as well, Sweden turns out to fit the overall pattern much better, with a nonprofit share of total employment (including volunteer employment) in excess of Germany's.

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<sup>11</sup> The Gini index is a way of measuring the distribution of various attributes within a population. A Gini index approaching 0 indicates that all people in a population share this attribute equally. A Gini index of 1 indicates that the attribute or item in question is controlled by a single individual. Since we were interested in a measure of "heterogeneity," we used  $1 - \text{Gini}$  as our measure.

**Table 6**  
**Determinants of Nonprofit Size: Summary**

Theory	Explanatory Variable	Scope of Test	Expectation	Actual Slope
Heterogeneity	Linguistic Diversity	All Education	+ +	+0.185* +0.008
	Government Social Welfare Expenditures	All Education	- -	- 0.075 - 0.026*
Supply-side	Religious Diversity	All Education	+ +	+0.074* +0.020*
Trust	Trust in Business	All Health, Social Services	- -	+0.010 - 0.002
Welfare State	Per capita Income	All Health, Education, Social Services	- -	- 0.037 +0.008
Interdependence	Government Social Welfare Expenditures	All Health, Education, Social Services	+ +	- 0.075 - 0.096*
Social Origins	Corporatism	All Social Services, Education	+ +	Moderate Moderate

\* Correlation coefficient greater than +/- 0.4

The heterogeneity model also finds support in the two other tests we devised for it. The first relates the size of the nonprofit sector to the level of government social welfare spending, and the second relates the degree of heterogeneity to the share that private giving comprises of the funding of nonprofit organizations. As shown in Table 6, the relationship between government social welfare spending and the scale of the nonprofit sector is fairly robust and in the negative direction predicted by this theory. At the same time, however, anomalies abound, as summarized in Table 7. Thus, Japan, with a low level of government social welfare spending nevertheless has a very small nonprofit sector. On the other hand, France and Germany, with relatively high levels of government social welfare spending also have relatively large nonprofit sectors, contrary to what this theory would predict.

**Table 7**  
**Government Social Welfare Spending vs. Scale of the Nonprofit Sector**

Government Social Welfare Spending as % of GDP	Nonprofit Employment as % of Labor Force		
	<i>Low</i>	<i>High</i>	<i>TOTAL</i>
<i>Low</i>	Japan	U.S., U.K.	3
<i>High</i>	Italy Sweden	Germany France	4
<i>TOTAL</i>	3	4	7

With regard to the composition of nonprofit revenue, the heterogeneity theory finds significant support. As shown in Table 8, the relationship between linguistic diversity and the share of nonprofit revenue that comes from private giving is quite strong and in the predicted direction. As a general rule, as the degree of heterogeneity increases, the share of nonprofit revenue that can be found from private charitable sources increases as well, though Italy, Germany, and France fail to fit this model as well as the U.K., Sweden, and the U.S.

**Table 8**  
**Determinants of Nonprofit Finance: Summary**

<b>Theory</b>	<b>Explanatory Variable</b>	<b>Dependent Variable</b>	<b>Scope of Test</b>	<b>Expectation</b>	<b>Actual Slope</b>
Heterogeneity	Linguistic Diversity	% of Income from Private Giving	All Education	+ +	+2.11* +1.1*
Supply-side	Religious Diversity	% of Income from Private Giving	All Education	+ +	+0.139 - 0.090
Trust	Popular Trust in Business	% Private Fees and Payments	All Health, Social Services	- -	- 0.100 +0.430*
Interdependence	Government Social Welfare Expenditures	% Public Sector Income	All Health, Education, Social Services	+ +	- 0.004 +0.860*
Social Origins	Corporatism	% Public Sector Income	All Social Services, Education		Moderate

\* Correlation coefficient greater than +/-0.4

Interestingly, however, while the heterogeneity model works fairly well in explaining variations in the scale and revenue base of the nonprofit sector as a whole, it works much less effectively in accounting for variations in these aspects of the education component of this sector, which is the component to which this theory is supposed to apply most forcefully. This is evident in the data reported in Tables 6 and 8 and in the scattergram presented in Figure 3. Thus, as Figure 3 shows, there is almost no evident relationship between the degree of ethnolinguistic diversity and the scale of the nonprofit education subsector among countries, while the relationships between the level of government social welfare spending and the size of the nonprofit education subsector, and between diversity and private giving in the education subsector, reported in Tables 6 and 8 are weaker than the comparable relationships for the sector as a whole. What this seems to suggest is that while the heterogeneity thesis finds considerable support in the cross-national data we have assembled, it is hardly the full story and, in certain respects, leads to misleading results.

## 2) Supply-Side Theory

To what extent does the supply-side theory compensate for these limitations of the heterogeneity thesis? As noted above, this theory developed as a complement to the heterogeneity approach, arguing that heterogeneity is a necessary but not sufficient condition to give rise to extensive nonprofit institutions. What is needed in addition, this theory suggests, is an adequate supply of “moral entrepreneurs” with the incentive to respond to unsatisfied demand for collective

goods by creating nonprofit organizations.

Since the supply side theory posits religious zealots competing for adherents as one prime source of such entrepreneurs, we tested this theory by measuring the extent of religious competition in a country as reflected in a Gini index of religious differences. Because this theory posits such entrepreneurs to have the strongest incentives to create nonprofit organizations in the education field, moreover, we tested the theory not only in general but in the education field in particular.

The results, reported in Tables 6 and 8, reveal moderate support for the supply side approach. Thus the relationship between religious competition and both overall nonprofit scale and the share of nonprofit income coming from private giving is in the expected positive direction, though the effects do not seem very strong. What is more, this factor seems to have almost no effect in explaining variations for the education subsector, where it is supposed to apply most forcefully. This is evident in Figure 4, which shows the relationship between religious competition and the relative size of the nonprofit education sector. Indeed, for the education subsector, the relationship between religious competition and the share of nonprofit income coming from private giving is actually negative, just the opposite of what this theory would predict. Nor do these results improve at all when we factor volunteer labor into the equation as well. While religious competition may work hand-in-hand with ethno-linguistic diversity to stimulate nonprofit growth, the independent effects seem weak, particularly in the field where they could be expected to be most pronounced.

### 3) Trust Theory

The third set of theories available to explain the scope and structure of the nonprofit sector focuses on this sector's role in overcoming information asymmetries that plague the operation of the private market. According to this theory, as we have seen, because they do not distribute profits to their owners, and because they attract the involvement of "stakeholders" committed to the quality of the services the organization produces, nonprofits are assumed to embody a higher level of trustworthiness than do profit-oriented private businesses. Situations where trust in the business sector is limited should therefore be ones where the nonprofit sector should prosper.

To test this theory, we drew on data available from the World Values Survey (World Values Study Group, 1994) relating to trust in business. The greater the number of people in a country expressing "considerable" or "a great deal" of trust in major companies, the *lower* the reliance on nonprofit organizations this theory would predict since consumers would feel less incentive to turn to nonprofits to supply trust-sensitive goods. At the same time, the higher the level of trust, the lower the level of reliance on fees and charges we would expect among nonprofit organizations, since these organizations would not be in as advantageous a position to compete for paying customers to provide trust-sensitive services. What is more, we would expect the relationships predicted by this theory to hold with particular force in the fields of health and social services, where problems of information asymmetry and trust are particularly acute.<sup>12</sup>

As it turns out, our data provide little support to this theory. As shown in Table 6, the slope of the line relating level of trust to the size of the nonprofit sector is virtually flat, indicating no

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<sup>12</sup> We would naturally be in a better position to test this theory if we had data about the level of trust in business in particular fields, but such data are not available.

meaningful relationship. This is evident as well in Figure 5, which arrays the various countries in terms of their level of popular trust in business versus the scale of their nonprofit sectors. Not only does this relationship not hold for the sector as a whole, moreover, it holds even less for the health and social services subsectors, where it is supposed to have particular force. Similarly, the hypothesized negative relationship between trust and nonprofit reliance on fees and service charges also finds little support in the data, as Table 8 reveals. What is more in the case of health and social service agencies, where this theory is supposed to apply with particular force, the actual relationship is in the opposite direction from what this theory would predict.

#### **4) Welfare State Theories**

Underlying the preceding theories, as noted earlier, is the assumption that the growth of government social welfare spending displaces nonprofit organizations. Unexamined in these theories, however, is the question of what it is that explains the growth of government social welfare spending in the first place. Scholars working on the development of the modern welfare state have found an explanation of this phenomenon in the extension of industrialization, which disrupts the social order of the village and exposes workers to the need for a variety of social welfare protections that were unnecessary in an agrarian civilization (Wilensky 1975).

Although these welfare state theories generally pay little attention to the nonprofit sector, it is a reasonable extension of these theories to apply them to this sector. In particular, such an extension would lead us to expect a negative relationship between economic development and the size of the nonprofit sector on grounds that industrialization, coupled with economic growth, creates both the need and the opportunity for a public system of social welfare protections, which, in turn, displaces the one provided through the nonprofit sector. What is more, this effect would be most pronounced with respect to the service-providing components of the nonprofit sector, i.e. those involved in the provision of health, education, and social services.

As it turns out, this thesis finds very little support in our cross-national data, as reflected in Figure 6 and Table 6. Countries with similar levels of per capita income have widely divergent levels of nonprofit employment. If anything, moreover, the relationship is even weaker in the health, education, and social services area where it is supposed to have special force. Finally, this picture does not change when we take account of volunteer labor as well. Quite clearly, the simplistic relationship embodied in the welfare state theories does not provide much help in explaining variations in nonprofit sector strength.

#### **5) Interdependence Theory**

One reason for the somewhat disappointing results of the welfare state and other theories considered here may be their common assumption of a competitive relationship between the nonprofit sector and the state. In fact, however, as we have seen, there are strong theoretical reasons to expect at least the possibility of a cooperative and interdependent relationship between these two sectors instead, at least under certain circumstances. Governments interested in extending social welfare protections can often benefit from enlisting the aid of nonprofit organizations, and nonprofit organizations can often benefit from governmental financial aid. Instead of an inherent conflict, therefore, the basis for a productive partnership can exist instead.



To the extent that this interdependence theory holds, we would expect that the size of the nonprofit sector will *increase*, not decrease, with the growth of government social welfare spending, if not everywhere, then at least in a significant range of settings. By the same token, this line of thought would lead us to expect that the public share of nonprofit revenue will *increase* as the overall scale of government social welfare spending increases since government would have an incentive to cooperate with nonprofit organizations, and vice versa, as the range of publicly financed social welfare protections expands.

As already indicated in the discussion of the heterogeneity model above, the overall thesis embodied in this model does not find firm support in the data. Rather than increasing, as predicted by this model, the scale of the nonprofit sector seems to decline as government social welfare spending increases, and this is particularly so in the health, education, and social services field where this model should hold most firmly (see Table 6). At the same time, this model may prove helpful indeed in explaining the anomalies reported in Table 7 above. One reason that increases in government social welfare spending may not have been associated with declines in the scale of the nonprofit sector in Germany and France may be that government in these countries has chosen to forge partnerships with nonprofit organizations and is actually helping to underwrite and extend their operations.

Further support for this line of thinking is evident in the data on the relationship between government social welfare spending and government support for the nonprofit sector reported in Table 8. As this table shows, while there is only a very modest relationship between the level of government social welfare spending and the share of nonprofit income that comes from government for the sector as a whole, this relationship is quite strong in the human service field where the theory would predict it would be most evident. This is even more clearly evident in Figure 7, which displays the distribution of countries in terms of these two variables. As this figure shows, there is a decided tendency for the government share of nonprofit human-service agency revenue to increase as the overall scale of government social welfare spending increases, suggesting the presence of an interdependent relationship between government and the nonprofit sector in this sphere.

In short, the interdependence theory usefully supplements the other theories introduced here, providing an important part of the explanation for anomalies that these other theories leave unresolved.

## 6) Social Origins Theory

The remaining problem, however, is how to explain the dynamics that lie behind the pattern of interdependence that apparently arises in a significant range of cases, disrupting the seemingly automatic and unilinear relationships suggested by the heterogeneity thesis. One possible response to this problem, we suggested earlier, was what we termed "social origins" theories. Such theories potentially provide a bridge between the economy and simplicity of the economic theories we have been considering and the complex and often inconclusive world of comparative historical work. They do so by positing a finite set of more or less distinct "models" or "regimes" with identifiable features, explanations, and consequences. In the process, they make it possible to summarize a vast amount of historical and social detail while still acknowledging in a meaningful way the inherent complexity of the kind of social processes that a phenomenon as complex as the nonprofit sector

inevitably involves.<sup>13</sup>

One initial test of this approach, we suggested, borrows from the notion of welfare state "regime types" posited by Gøsta Esping-Andersen. Extending Esping-Andersen's argument, we posited four possible models of nonprofit sector development, each characterized by a particular constellation of government and nonprofit activity (Table 4). Two of these--the "liberal" and the "social democratic"--are widely acknowledged in the existing nonprofit literature and indeed are almost the only possibilities recognized. This reflects the prevailing paradigm of conflict, which views the nonprofit sector and the state as alternative mechanisms for responding to social needs. Thus, the *liberal model* occurs where the state is restricted and the nonprofit sector consequently has room to grow while the *social democratic model* emerges where state social welfare provision expands and the nonprofit sector is forced to contract.

What the social origins approach suggests is that there are at least two other options. One of these is what we termed, borrowing from Esping-Andersen, the *corporatist* model, though our formulation focuses on the role of the nonprofit sector rather than the pension systems that are the focus of Esping-Andersen's concern. This model is most likely where pre-modern social elements--landed elites, the Church, the monarchy--retain significant influence into the modern era and respond to pressures for social welfare protections by establishing state-centered social welfare regimes that nevertheless incorporate key elements of pre-modern social relations. We suggested that nonprofit organizations can be viewed as one of the more important pre-modern institutions and relations preserved in the corporatist welfare state. To the extent this is true, we would expect to find no conflict between the growth of government social welfare spending and the growth of the nonprofit sector. To the contrary, the two would grow hand-in-hand. A similar outcome is also possible where traditional welfare state regimes encounter political barriers to their further development, necessitating cooperation with other social groupings and provider groups in order to preserve and extend state-sponsored services.

Finally, where the state retains considerable power into the modern era and is not effectively challenged either by urban middle class elements, landed elites, a peasantry, or an urban working class, a fourth pattern is possible, which we termed the *statist* model. Under this model limited government social welfare spending does not open the way to the growth of a sizeable nonprofit sector at all. Rather, *both* government social welfare spending and the third sector remain stunted.

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<sup>13</sup> For a fuller explication of the analytic advantages of this "social origins" approach, see: Lester M. Salamon, "Comparative History and the Theory of Modernization," *World Politics* (1970); on the foundations of comparative-historical analysis, see also discussion in Ragin (1987), particularly Chapters 1 and 2.

As reflected in Table 9, our data give considerable support to this social origins approach. As it turns out, all four of the regime types reflected in this theory turn out to be represented among the countries we studied, and the explanations seem consistent with what the “social origins” theory would suggest. In the first place, two of the countries, the U. S. and the U.K., fall into the category of *liberal* nonprofit regimes. In both, government social welfare spending is relatively low and the size of the nonprofit sector relatively large. In both, moreover, the social conditions thought to be associated with this pattern are very much in evidence--namely a sizable urban middle class that effectively disrupted (or, in the case of the United States never really confronted) a landed upper class while holding urban working class elements at bay. The American middle class was much more successful at this than its British counterparts, however, in part because it never really had an entrenched landed elite to unseat, and in part because ethnic and racial diversity kept the working classes more highly splintered. Political support for a state-centered welfare system was therefore far more muted in the American setting than in the British, where a postwar surge of working class support led to the establishment of certain key features of a classic “welfare state,” particularly in the field of medicine. The U.S. is thus a “purer” form of the *liberal* model whereas the U.K. is more a mixture of the liberal and the social democratic.

**Table 9**  
**Test of Social Origins Model of Nonprofit Sector**

<b>Government Social Welfare Spending</b>	<b>Nonprofit Scale</b>	
	<b>Low</b>	<b>High</b>
<b>Low</b>	<i>Statist</i> Japan	<i>Liberal</i> U.S. U.K.
<b>High</b>	<i>Social Democratic</i> Sweden Italy	<i>Corporatist</i> Germany France

Source: Johns Hopkins Comparative Nonprofit Sector Project

The *social democratic* pattern is more fully represented in our data by the case of Sweden and, to a lesser extent, Italy, both of which are characterized by relatively high levels of government social welfare spending and relatively small nonprofit sectors, at least as measured in terms of employment. In both, moreover, the social conditions thought to be associated with this pattern are in evidence. This is particularly true in the case of Sweden, where working class political parties were able to push for extensive social welfare benefits as a matter of right in a context of a weakened, state-dominated Church and a limited monarchy. In Italy, the same social outcome was produced through a slightly different route. With Church-dominated social welfare institutions placed firmly under state control beginning in the mid-nineteenth century as part of the effort to achieve national unification, the Fascist regime was able to move in the 1920s to establish a state-centered system of social welfare protections that was then extended by the democratic governments of the postwar era. The upshot was a strong tradition of state-provided welfare assistance with little room for an independent, nonprofit sector.

A small nonprofit sector in terms of employment does not necessarily mean a small nonprofit sector overall in such regimes, however. Rather, the nonprofit sector may simply perform a different function in social democratic regimes--an advocacy and personal expression, rather than a service-providing, role. This is certainly the case in Sweden where a very substantial network of volunteer-based advocacy, recreational and hobby organizations turns out to exist alongside a highly developed welfare state. This may help explain our earlier finding that while Sweden ranks at the low end of European countries when only paid employment in the nonprofit sector is considered, it ranks at the high end when account is taken as well of the involvement of volunteers. In this kind of setting, in fact, the nonprofit sector may actually come closest to the ideal of a "civil society" sector functioning to facilitate individual and group expression.

Beyond these two widely accepted models, however, our data also validate the existence of the two others identified in the "social origins" theory. The first of these is the *corporatist* model, represented here by Germany and France. In both of these the state has either been forced or induced to make common cause with nonprofit organizations, albeit for different historical reasons. In Germany, the state, backed by powerful landed elements and in cooperation with a relatively weak urban middle class, worked out an agreement with the major churches beginning in the latter nineteenth century to create a state-dominated social welfare system that nevertheless maintained a sizeable religious presence. This agreement was ultimately embodied in the concept of "subsidiarity" as the guiding principle of social policy.<sup>14</sup> The upshot has been a close working relationship between the state and voluntary organizations--both secular and religious--and the resulting coexistence of extensive government social welfare spending and a sizeable nonprofit sector. In France, a rather different sequence led to a similar result. Following the French Revolution, France effectively broke the back of Church-created voluntary institutions and set a course toward state-sponsored social welfare. However, political compromises made in the face of popular opposition helped preserve the prominent role of Catholic schools in primary and secondary education. At the same time, a strong sentiment of solidarity sustained a network of friendly societies and associations through which cultural and recreational interests were pursued, as in the

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<sup>14</sup> This concept essentially holds that principal responsibility for dealing with any social problem lies first with the social unit closest to the problem, and that any state involvement should operate with and through such local institutions of neighborhood, church, and social group (Anheier and Seibel 1996; Salamon and Anheier 1994).

social democratic model described above. In the early 1980s, however, a Socialist government, confronting severe resistance to the further extension of the classical social democratic welfare state, found itself obliged to reach out to the associational world for help, extending financial assistance to associations in the process. The result has been the forging of a partnership between the state and the voluntary sector that bears marked resemblance to that in the more traditional corporatist regimes.<sup>15</sup>

Finally, the case of Japan fits the *statist* model, with low levels of government social welfare spending accompanied by a relatively small nonprofit sector. This reflects a tradition of state dominance established during the Meiji Restoration of 1868 that, in the absence of effective urban middle class or working class movements, has allowed the state apparatus to retain considerable autonomous power. Combined with extensive corporate welfare, the result has been a relatively low level of government social welfare protection without a corresponding growth of independent nonprofit activity.

## CONCLUSION

The analysis reported here thus casts considerable doubt on some of the single-factor explanations that have dominated discussion of the nonprofit sector in recent years. At the very least, it seems that such factors apply only in certain circumstances, and even then, only to some components of this complex set of institutions.

At the same time, it should be clear that the tests of these theories offered here are preliminary at best. The number of observations is too limited and the operationalization of some of the key variables too crude to treat this as a final assessment of any of the theories we have explored. Indeed, given the limitations of the data and the difficulty of converting some of these theories into operational form, it is surprising how much credence some of the theories gained from the empirical evidence we were able to muster. This was particularly true of the heterogeneity theory and, to a lesser extent, of the interdependence theory. In the process, the analysis reported here seems to validate the fruitfulness of examining patterns of nonprofit development and finance cross-nationally and thus for treating the nonprofit sector, and its major component parts, as meaningful analytical categories.

Finally, and perhaps most importantly, the findings here suggest a fruitful new line of analysis for understanding the nonprofit sector at the global level, a line that we have termed the "social origins" approach. This approach treats the nonprofit sector not as an isolated phenomenon floating freely in social space but as an integral part of a social system whose role and scale is a byproduct of a complex set of historical forces. What is more, it suggests that these forces are far from random or *sui generis*. Rather, distinctive patterns are evident that can be analyzed and compared. Certain circumstances are therefore more congenial to the blossoming of nonprofit institutions than others, and the shape and character of the resulting nonprofit sector is affected by the particular constellation of social forces that gives rise to it. The "social origins" approach thus

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<sup>15</sup> For additional detail on the French case, see: Edith Archambault, *The Nonprofit Sector in France*. The Johns Hopkins Nonprofit Sector Series edited by Lester M. Salamon and Helmut K Anheier. Manchester: Manchester University Press, 1996.

serves as a bridge between the elegant simplicity of the economic models, which unfortunately turn out to leave much of the important variation unexplained, and the dense detail of traditional historical accounts, which make it extremely difficult to generalize from place to place. In the process, it usefully integrates the study of the nonprofit sector into the social analysis of societies more generally.

Whether this "social origins" approach will prove more effective than the alternative theories for understanding the growth and development of the nonprofit sector is too early to tell at this point. Our hope, however, is that the exploratory attempt we have made here to test available theories of the nonprofit sector against solid empirical data will serve as both a stimulus and a useful first step toward the more complete theory-testing that is needed. Only in this way, we believe, will we come closer to understanding what the true determinants of nonprofit growth and development really are. Given the importance increasingly attached to this sector among both scholars and practitioners alike, this would be a desirable outcome indeed.

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