Table of Contents

Contributors ......................................................... ix
Preface ................................................................. xvii

Part 1: Comparative Overview ......................................... 1
  Chapter 1: Civil Society in Comparative Perspective ............. 3
    Lester M. Salamon, Helmut K. Anheier, and Associates

Part 2: Western Europe ............................................... 41
  Chapter 2: Belgium ............................................... 43
    Sybille Mertens, Sophie Adam, Jacques Defourny,
    Michel Marée, Jozef Pacolet, and Ilse Van de Putte
  Chapter 3: Finland .............................................. 63
    Voitto Helander, Harri Laaksonen, Susan Sundback,
    Helmut K. Anheier, and Lester M. Salamon
  Chapter 4: France ............................................... 81
    Édith Archambault, Marie Gariazzo, Helmut K.
    Anheier, and Lester M. Salamon
  Chapter 5: Germany .............................................. 99
    Eckhard Priller, Annette Zimmer, Helmut K. Anheier,
    Stefan Toepler, and Lester M. Salamon
  Chapter 6: Ireland ............................................... 119
    Freda Donoghue, Helmut K. Anheier, and Lester M.
    Salamon
  Chapter 7: Netherlands ........................................... 145
    Ary Burger, Paul Dekker, Stefan Toepler, Helmut K.
    Anheier, and Lester M. Salamon
  Chapter 8: Spain ................................................ 163
    José Ignacio Ruiz Olabuenaga, Antonio Jiménez Lara,
    Helmut K. Anheier, and Lester M. Salamon
  Chapter 9: United Kingdom ...................................... 179
    Jeremy Kendall and Stephen Almond
Part 3: Other Developed Countries ............................. 201
Chapter 10: Australia ........................................... 203
  Mark Lyons, Susan Hocking, Les Hems, and
  Lester M. Salamon
Chapter 11: Israel .............................................. 219
  Benjamin Gidron, Hagai Katz, Helmut K. Anheier,
  and Lester M. Salamon
Chapter 12: Japan ............................................. 243
  Naoto Yamauchi, Hiroko Shimizu, S. Wojciech
  Sokolowski, and Lester M. Salamon
Chapter 13: United States ..................................... 261
  S. Wojciech Sokolowski and Lester M. Salamon

Part 4: Central and Eastern Europe ............................ 283
Chapter 14: Czech Republic .................................... 285
  Pavol Fríč, Rochdi Goulli, Stefan Toepler, and
  Lester M. Salamon
Chapter 15: Hungary .......................................... 305
  István Sebestény, Éva Kuti, Stefan Toepler, and
  Lester M. Salamon
Chapter 16: Poland ............................................ 325
  Ewa Leś, Slawomir Nalecz, Jan Jakub Wygnarski,
  Stefan Toepler, and Lester M. Salamon
Chapter 17: Romania ........................................... 337
  Daniel Saulaen, Dan Stancu, Carmen Epure,
  Stefan Constantinescu, Simona Luca, Adrian Baboi Stroe,
  Oana Tiganescu, Bogdan Berianu, Stefan Toepler, and
  Lester M. Salamon
Chapter 18: Slovakia .......................................... 355
  Helena Woléková, Alexandra Petrášová, Stefan
  Toepler, and Lester M. Salamon

Part 5: Latin America ........................................... 371
Chapter 19: Argentina .......................................... 373
  Mario Roitter, Regina List, and Lester M. Salamon
Chapter 20: Brazil .............................................. 393
  Leilah Landim, Neide Beres, Regina List, and
  Lester M. Salamon
Chapter 21: Colombia .......................................... 411
  Rodrigo Villar, Regina List, and Lester M. Salamon
# Table of Contents

Chapter 22: Mexico ......................................................... 429  
  Gustavo Verduzco, Regina List, and Lester M. Salamon  
Chapter 23: Peru ......................................................... 445  
  Cynthia Sanborn, Hanny Cueva, Felipe Portocarrero,  
  Regina List, and Lester M. Salamon  

Appendices ................................................................. 463  
  A: Methodology and Approach .................................... 463  
  B: Comparative Data Tables ....................................... 477  
  C: Data Sources ..................................................... 485  
  D: Advisory Committees ........................................... 501  
  E: Local Associates ................................................ 507  

Project Funders .......................................................... 511
BACKGROUND

Traditionally, the United States has been considered the seedbed of nonprofit activity. Alexis de Tocqueville, a keen 19th century observer of American institutional life, aptly considered voluntary associations to be a uniquely democratic response to solving social problems in a society characterized by extensive equality. Indeed, the early implementation of democratic forms of governance in the U.S. created ample room for social movements and civic initiatives that coalesced into voluntary associations. Even with the ascent of the New Deal and Keynesian economic policies, deep-seated American misgivings about excessive governmental power limited the scope of government social protections and left ample room for a sizable private nonprofit sector. Today, the nonprofit sector accounts for half of the U.S. colleges and hospitals, nearly two-thirds of all social service agencies, most civic associations, and almost all symphony orchestras.¹ Yet, as has been shown in previous chapters, the U.S. does not have the world’s largest nonprofit sector.

Although the U.S. nonprofit sector is now well-documented and studied, the absence of comparable data from other countries made it very difficult...
to place the U.S. sector in an international context. An initial effort in this regard began in 1990 with the first phase of the Johns Hopkins Comparative Nonprofit Sector Project. For this second phase effort, focusing on the nonprofit sector in 1995, the research drew heavily on estimates developed by Murray Weitzmann and Virginia Hodgkinson of the Independent Sector, based largely on U.S. Bureau of Economic Statistics and U.S. Census Bureau data. Those data are reported here with relatively minor adjustments and are supplemented by other information drawn from surveys of service industries carried out by the Bureau of the Census and other sources as reported in Lester Salamon’s America’s Nonprofit Sector: A Primer. (For a more complete statement of the sources consulted to compile the data reported here, see Appendix C.)

PRINCIPAL FINDINGS

Six major findings emerge from this work on the scope, structure, financing, and role of the U.S. nonprofit sector.²

1. A major economic force

In the first place, aside from its social and political importance, the nonprofit sector turns out to be a significant economic force in the U.S., accounting for significant shares of national expenditures and employment. More specifically:

• A $500 billion industry. Even excluding its religious worship component, the nonprofit sector in the U.S. had operating expenditures of $502 billion in 1995, or 6.9 percent of the country’s gross domestic product, a quite significant amount.³

• A major employer. Behind these expenditures lies an important workforce that includes nearly 8.6 million full-time equivalent (FTE) paid workers. This represents 7.8 percent of all nonagricultural workers in the country, 16.5 percent of service employment, and the equivalent of nearly half as many people as work for government at all levels: federal, state, and local (see Table 13.1).

• More employees than in the largest private firms. Put somewhat differently, nonprofit employment in the U.S. outdistances the employment in the largest private business in the country, and does so by a ratio of twelve-to-one. Thus, as shown in Figure 13.1, compared to the 8.6 million paid workers in U.S. nonprofit organizations, the largest U.S. private corporation, General Motors, employed only 711,000 workers as of 1995. Indeed, the U.S. nonprofit sector employs as many workers as the fifty largest
companies in the country, including such giants as Wal-Mart (over half a million employees), Pepsico (423,000), Ford Motor Company (322,000), AT&T (over 300,000), IBM (256,000), and General Electric (222,000).

• **Outdistances many industries.** Indeed, more people work in the nonprofit sector in the U.S. than in many entire industries in the country. Thus, as shown in Figure 13.2, nonprofit employment in the U.S. exceeds that in the three largest manufacturing industries combined (machinery manufacturing, manufacturing of transportation equipment, and manufacture of food products). In fact, nonprofit employment is also larger than the employment in the business services and finance, real estate, and insurance industries.

### Table 13.1 The nonprofit sector in the U.S., 1995

<table>
<thead>
<tr>
<th>Category</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>$502.0 billion in expenditures</td>
<td>6.9%</td>
</tr>
<tr>
<td>8.6 million paid employees</td>
<td>7.8%</td>
</tr>
<tr>
<td>— 6.9 percent of GDP</td>
<td></td>
</tr>
<tr>
<td>— 7.8 percent of total nonagricultural employment</td>
<td></td>
</tr>
<tr>
<td>— 16.5 percent of total service employment</td>
<td></td>
</tr>
<tr>
<td>— 46.7 percent of public employment</td>
<td></td>
</tr>
</tbody>
</table>

### Figure 13.1 Employment in nonprofits vs. largest firms in the U.S., 1995

*Paid employees only*
Volunteer inputs. Even this does not capture the full scope of the nonprofit sector in the U.S., for this sector also attracts a considerable amount of volunteer effort. Indeed, an estimated 49 percent of the U.S. population reports contributing their time to nonprofit organizations. This translates into another 5 million FTE employees, which boosts the total number of FTE employees of nonprofit organizations in the U.S. to 13.5 million, or nearly 12 percent of total employment in the country (see Figure 13.3). With the voluntary FTE workers included, the nonprofit sector is the second largest non-government industry in the U.S., surpassed only by retail trade.

Religion. The inclusion of religion, moreover, would boost these totals by another 1 million paid employees and 2.3 million full-time equivalent volunteers. As shown in Figure 13.3, with religion included, nonprofit paid employment therefore rises from 7.8 percent to 8.8
2. One of the largest, but not the largest nonprofit sector in the world

Despite its considerable scale, the U.S., contrary to public perceptions, does not have the largest nonprofit sector in the world when the size of the nation’s economy is taken into account.

- Considerably above the international average, but not the largest. As Figure 13.4 shows, the relative size of the nonprofit sector varies greatly among countries, from a high of 12.6 percent of total nonagricultural employment in the Netherlands to a low of less than 1 percent of total employment in Mexico. The overall 22-country average, however, was close to 5 percent. This means that the U.S., at 7.8 percent without religious worship, lies substantially above the global average. However, it falls below three Western European countries—the
Netherlands (12.6 percent), Ireland (11.5 percent), and Belgium (10.5 percent), as well as Israel (9.2 percent).

- Slightly above developed country averages. The relative size of the U.S. nonprofit sector is not only larger than the overall 22-country average, but also it is above the average of the nine Western European countries (7.0 percent) and that of the four other developed coun-

---

**Figure 13.4** Nonprofit share of total employment by country, 1995

Netherlands (12.6 percent), Ireland (11.5 percent), and Belgium (10.5 percent), as well as Israel (9.2 percent).

- Slightly above developed country averages. The relative size of the U.S. nonprofit sector is not only larger than the overall 22-country average, but also it is above the average of the nine Western European countries (7.0 percent) and that of the four other developed coun-
tries which include Australia, Israel, Japan and the U.S. (6.9 percent), as shown in Figure 13.5.

- **Margin widens with volunteers.** This margin widens considerably when volunteers are added. Thus, with volunteer time included, nonprofit organizations account for 11.9 percent of total employment in the U.S., which exceeds the Western European average of 10.3 percent and the other developed countries’ average of 9.4 percent (see Figure 13.5). The widening of this gap is due to a significantly greater volunteer input in the U.S. (equivalent to 4 percent of nonagricultural employment) than exists in any other developed country except the Netherlands (6.1 percent), France (4.7 percent) and the U.K. (4.4 percent).

3. **A rich history of nonprofit activity**

That the nonprofit sector is highly developed in the U.S. is a product of the peculiar culture and history of this country and the special niche that nonprofit institutions have consequently come to fill. Key features of this history include the following:

- A strongly individualistic cultural ethos that has produced deep-seated antagonism to concentrated power, whether political or economic.
This has made Americans reluctant to rely too heavily on government to cope with social and economic problems, thus leaving such significant problems to be tackled through private voluntary effort.

- Strong economic interests that have reinforced this cultural ethos in order to avoid government interference with business and to escape taxation beyond what was considered absolutely necessary. This has contributed to an “ideology of voluntarism” that has made support of voluntary approaches to social problem-solving an important political issue and ideological symbol. In addition, until relatively recently, it has made the development of nonprofit institutions and the solving of social problems heavily dependent on the availability of voluntary, private support.

- A frontier history in which society developed before government, thus establishing a pattern of group action to provide for common needs rather than a pattern of turning to governmental authorities.

- A history of concern for religious freedom and the avoidance of government interference with religious worship, which created a secure arena for private action for the common good outside the sphere of the state. Many early nonprofit institutions in such fields as health, education, and social services began as affiliates of these religious institutions.

- A diverse population fueled by successive streams of immigrants who brought with them their own cultural norms and community institutions, which helped foster numerous nonprofit social groups in the New World.

- A generally facilitative legal structure for the formation and operation of private, nonprofit organizations.

- A strong commitment to freedom of expression, and hence to the institutions through which citizens could join together to petition government and otherwise work to improve their collective well-being.

- A resulting pattern of social problem-solving that made it difficult for government to extend its reach without engaging the aid of private institutions, both nonprofit and for-profit. When social protections were extended in the 1960s, therefore, government turned heavily to private nonprofit institutions for help, thereby subsidizing an extensive expansion of nonprofit activity.

4. Health dominance

The structure of the U.S. nonprofit sector reflects this set of historical circumstances.

- Over 46 percent of nonprofit employment in health. In the first place, the major institutions in the American nonprofit sector are heavily con-
centrated in the fields of health, higher education, and high culture. Of these, health care is clearly the largest in terms of expenditures and employment. Thus, as Figure 13.6 shows, almost half (46 percent) of all nonprofit employment in the U.S. is in the health field. This is more than twice as high as the global average of 19.6 percent and almost

![Figure 13.6](image-url)

**Figure 13.6** Composition of the nonprofit sector, U.S., other developed countries, and 22-country average, 1995
double the developed country average of 25.9 percent. This reflects the fact that the U.S. resisted the development of a government-operated health care delivery system. When a system of public health insurance for the elderly was finally adopted in the mid-1960s, therefore, the major beneficiaries were private, nonprofit hospitals, which constituted over half of the hospitals in the country.

- **Considerable nonprofit presence in higher education.** While health clearly dominates the nonprofit employment picture in the United States, substantial numbers of people are also employed in nonprofit education institutions. In fact, as Figure 13.6 also shows, one out of every five nonprofit employees in the United States works in the educational field. This is proportionally well below the all-country average and also falls below the developed country average. The principal reason for this is that the tradition of separation of church and state in the U.S. has limited the growth of public funding of religiously affiliated education institutions in this country, particularly at the elementary and secondary levels. Ninety percent of elementary and secondary education in the U.S. is thus in public institutions operated by local governments, unlike the situation in many Western European countries, where a tradition of state support of religiously affiliated elementary and secondary education is evident. By contrast, however, nonprofit institutions are firmly entrenched at the higher education level in the United States. Many such institutions evolved from religious backgrounds, but most are secular today. Together they constitute some of the most prestigious universities in the country (e.g., Harvard University, Princeton University, Yale University, Stanford University, and Johns Hopkins University).

- **Relatively smaller shares of nonprofit employment in social services, culture, and professional activity.** Compared to the overall 22-country average, U.S. social services, culture, and professional associations (which also include labor unions) absorb a smaller share of nonprofit employment. Thus, while a quarter of all nonprofit employment is in the social services field in the developed countries generally, in the U.S. this figure is only 13.5 percent. Similarly, culture and professional associations account for only 7.3 and 2.9 percent of employment in the U.S. nonprofit sector compared to 14.4 and 6.5 percent of nonprofit employment, respectively, in the 22 countries. One reason for this, of course, is the sheer size of the health component of the nonprofit sector, which makes other portions appear smaller by comparison. Also at work, however, has been the more limited public support for both social services and culture and the generally weak position of labor unions (though not business and professional organizations) in American society.
• **Pattern shifts with volunteers.** This pattern changes significantly when volunteer inputs are factored in. In particular, as shown in Figure 13.7, with volunteers included, health considerably loses its salience, even though it is still the dominant field. Another significantly affected field is advocacy, whose share of nonprofit employment
increases almost three-fold from under 2 percent to nearly 5 percent. Social services also gains a substantial share (22 percent with volunteers), although that gain is not as dramatic as in the case of advocacy.

The low volunteering rates in health are explained by the professionalization of health care that leaves very little room for amateurs. For every FTE health care volunteer working in 1995, there were six professionals. By contrast, nearly three times as many FTE volunteers worked for advocacy organizations as professionals. This is consistent with the tradition of voluntary agencies serving as a platform for political mobilization. Finally, as is the case in most of the countries covered in this volume, social service organizations in the U.S. absorb a significant share (more than one-third) of all volunteering. These volunteers more than double the amount of human resources devoted to providing social services.

- **Religion.** The overall structure of the American nonprofit sector does not change fundamentally with the inclusion of religious worship organizations (churches, synagogues, mosques). To be sure, such organizations account for larger shares of nonprofit employment and volunteering than in the other countries studied. Thus, as Figure 13.8 shows, such religious organizations constitute over 11 percent of nonprofit paid employment and over 30 percent of full-time equivalent volunteering in the U.S. nonprofit sector compared to 3.5 percent and 11 percent, respectively, in Western Europe and 5.5 percent and 18 percent, respectively, in the other developed countries. Even with religious organizations included, however, health, education, and social services remain the dominant fields of nonprofit activity, together accounting for nearly three-fourths of total nonprofit sector employment.

5. **Most revenue from service fees, not philanthropy**

Contrary to public perceptions and political rhetoric, private philanthropy is not the major source of revenue of American nonprofit organizations. In fact, it is not even the second most important source. Rather, most nonprofit revenue comes from service fees and public sector payments.

- **Service fee dominant.** The dominant source of income of the nonprofit sector in the U.S. is service fee revenue. This source accounts for over $320 billion, or 56.6 percent of all U.S. nonprofit revenue (see Figure 13.9).
- **Public sector support.** The second most important revenue source for American nonprofit organizations is the public sector. Public sector support accounted as of 1995 for 30.5 percent of all nonprofit
Figure 13.8  Employment and volunteering in nonprofit religious worship organizations as share of total nonprofit employment and volunteering, U.S., W. Europe, and other developed countries, 1995

Figure 13.9  Sources of nonprofit revenue in the U.S., 1995
revenues. This reflects the widespread partnership that developed between government at all levels and nonprofit organizations during the Great Society era of the 1960s, when government social welfare spending expanded greatly.

- **Limited support from philanthropy.** By contrast, private philanthropy provides a much smaller share of total nonprofit revenue. Thus, as Figure 13.9 shows, private philanthropy—from individuals, corporations, and foundations combined—accounts for only 12.9 percent of nonprofit income in the U.S.

- **Revenue structure with volunteers.** This pattern of nonprofit revenue changes dramatically when volunteers are factored into the picture. In fact, as shown in Figure 13.10, the share of private philanthropy doubles from 12.9 percent to 26.9 percent, thereby becoming slightly greater than public sector payments (25.6 percent), but still considerably below service fees (47.4 percent). This fact testifies to the importance of volunteering in the operations of the U.S. nonprofit sector. As these data show, the value of volunteering is at least as significant as that of monetary gifts.

- **Revenue structure with religious worship.** The overall pattern of nonprofit finance in the U.S. changes even further when account is taken of religious worship institutions, such as churches and synagogues. Such religious worship institutions account for approximately $65 billion, or 10 percent of the total revenue of the U.S. nonprofit sector. Most of these monies (nearly 95 percent) come from private giving. With religion included, therefore, the philanthropic share of total

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**Figure 13.10** Sources of nonprofit revenue in the U.S., with volunteers, 1995
nonprofit revenue in the U.S. rises from 12.9 percent to 21 percent. With volunteers included as well, the private giving share rises to 37 percent (see Figure 13.11).

- **Deviation from the all-country and developed country patterns.** The revenue structure of the U.S. nonprofit sector thus differs considerably from the global average and all 13 other developed countries. As Figure 13.12 shows, the role of public sector payments is considerably lower in the U.S. than in the developed countries generally (30.5 percent vs. 51.6 percent) or in all 22 countries (40.1 percent). In fact, the level of public support for the nonprofit sector in the U.S. is the lowest among all developed countries, and falls behind even some Eastern European nations such as the Czech Republic or Romania.

  By contrast, the share of nonprofit income coming from fees and charges is considerably higher in the U.S. than it is in the developed countries generally or the 22-country average (56.6 percent vs. 40.9 percent and 49.4 percent, respectively).

  Similarly, though smaller than might be expected given the rhetoric of American philanthropy, private giving comprises a larger share of nonprofit revenue in the U.S. than it does, on average, in all 22 of the countries examined or in just the developed countries (12.9 percent vs. 10.5 percent and 7.5 percent, respectively). At the same time, however, private philanthropy still plays a smaller part in the financing of nonprofit action in the U.S. than it does in a number of other countries, including several in Central Europe.
Clearly, the partnerships between government and the nonprofit sector that have developed in Western Europe have failed to develop as fully in the United States. Although private giving has helped the sector to sustain itself in this context, it hardly has provided sufficient support. Instead, nonprofit organizations have turned extensively to the market for support, charging fees for their services and often collecting substantial amounts of revenue in the process.

- **Variations by subsector.** This overall picture of nonprofit finance does not apply across the board, however. Rather, important differences exist in the revenue structure of nonprofit organizations by field of activity. In fact, two quite distinct patterns of nonprofit finance are evident among the U.S. nonprofits, as shown in Figure 13.13.

**Fee-dominant fields.** Fee income is the dominant source of income in seven of the eight fields of nonprofit action for which data were gathered. The field most heavily dependent on this revenue source is work-related organizations (professional associations and labor unions) which derive most of their revenues from membership dues. This is followed by philanthropy, which receives no significant public sector payments, and derives most of its revenues from investment income. In three fields, the structure of revenue is somewhat more balanced. This
includes health, where extensive fee income is partly balanced by substantial public sector support; and also development and social services, where significant philanthropic support is present as well.

**Private philanthropy-dominant fields.** While private philanthropy is far from being the dominant source of nonprofit income in the U.S.
overall, it turns out to be the dominant source of income in at least one field—the field of culture. This reflects the lack of political support for “high culture” in the U.S. and the resulting dependence of cultural institutions on the support of wealthy patrons.


Between 1990 and 1995 the nonprofit sector in the U.S. grew by 20 percent, exceeding the growth rate of the entire economy by a ratio of almost 3:1 (the overall growth rate during this period was about 8 percent). However, that growth rate was pretty much in line with employment growth in the service sector, which grew faster than the rest of the economy. Since the nonprofit sector is, for the most part, a sub-component of the service sector, its rate of growth can be explained by the growing prominence of services in the U.S. economy.

A more interesting shift in this period of time occurred in the revenue structure of the American nonprofit sector. Of the total growth in nonprofit revenues during this period, 26 percent came from public sector payments, 12 percent from philanthropy, and 62 percent from service fees (Figure 13.14). In other words, service fees contributed disproportionately to the growth of the sector compared to what its share of total revenue at the start of the period would have suggested. This pattern is similar to that observed in other developed countries, particularly France and Germany (see Chapters 4 and 5), though there such fees started from a considerably smaller base.

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Figure 13.14  Shares of nonprofit revenue growth, by source, U.S., 1990–1995
CONCLUSIONS AND IMPLICATIONS

The nonprofit sector thus emerges from the evidence presented here as both a sizable and a rather complex set of institutions in U.S. society. Not only does this set of institutions serve important human needs and embody important national values stressing individual initiative in the solution of public problems, it also constitutes a major, and growing, economic force and is a significant contributor to political as well as social life.

At the same time, the U.S. nonprofit sector is experiencing important changes that are opening new opportunities while also exposing the sector to significant dangers. On the positive side of the ledger, a number of demographic developments such as the aging of the population, the transformation of the role of women, and continued changes in family structure are boosting demand for the kinds of services that nonprofit organizations traditionally have provided—such as day care, elderly care, health care, and other human services. In addition, the sector has benefited from increased visibility and professionalization in recent decades as a product of expanded research, the establishment of a number of sector-wide infrastructure organizations, and the emergence of a number of nonprofit management training programs. At the same time, there is considerable evidence of continued reinvigoration of the grassroots base of this sector as new social movements have emerged in fields as diverse as environmental protection, poverty alleviation, and expansion of the rights of women. Finally, the considerable economic growth that the U.S. has experienced over the past two decades has produced fortunes that, potentially at least, could propel charitable giving upward; and this is taking place at a time when corporations are coming to appreciate as well the strategic value of community investments.

On the other side of the ledger, however, American nonprofits have been facing a considerable fiscal squeeze as a consequence of reductions in government support triggered by a conservative backlash against the Great Society legislation of the 1960s. While organizations have responded to this situation by expanding their reliance on fee-for-service income, this has had the unfortunate result of demonstrating the income-generating potential of many of these fields, enticing for-profit competitors to move more heavily into them. In some areas, such as home health, in fact, for-profits have displaced nonprofits as the predominant providers. Indeed, because of their superior access to capital, for-profits are poised to challenge nonprofit organizations across a broad front, especially given the increased questioning of nonprofit effectiveness that seems to be under way and the shift of social welfare policy toward job readiness and employability rather than general human development as its principal goal. All of this
is forcing nonprofit organizations to become more market-oriented in their operations, but at the price of posing questions about the legitimacy of the special tax and other privileges that they enjoy.

What this suggests is that the survival and prosperity of nonprofit institutions is not only at issue in the developing regions of Africa, Asia, and Latin America and the transition societies of Central and Eastern Europe. Despite the considerable scale of these institutions, indeed perhaps because of their considerable scale, the future of these institutions is very much in question in mature market economies as well. Certainly in the United States, where a somewhat naïve myth of voluntarism has long enveloped the nonprofit sector, recent years have witnessed a steady broadening of the gap between what nonprofit organizations have had to do to prosper and grow and what popular mythologies have expected them to do to retain public support. The result has been a virtual crisis of legitimacy for America’s nonprofit sector that has manifested itself in declining public confidence, increased demands for accountability, challenges to tax-exempt status, questioning of the sector’s advocacy role, and considerable unease about a range of pay and perquisite issues.

Those committed to the retention of a sphere of social action outside the market and the state therefore cannot afford to take the survival of this set of institutions for granted, even in the United States where commitment to this type of institution is an integral part of national traditions. Certainly, there is a need to re-examine the role and character of these institutions regularly in the light of new circumstances and needs. It is hoped that the kind of information developed in this report, and in the project of which it is a part, can contribute usefully to this purpose.

ENDNOTES


2. The structural-operational definition of the nonprofit sector used by the Johns Hopkins project is considerably broader than that commonly accepted in the U.S. Beyond the 501(c)(3) and 501(c)(4) organizations that are generally considered to be nonprofits, the project’s definition includes work-related organizations (unions and professional associations), political organizations, and certain types of member-serving associations. For a summary of that definition, see Chapter 1 above and Appendix A.

3. Technically, the more precise comparison is between nonprofit contribution to “value added” and gross domestic product. For the nonprofit sector, “value added” in economic terms essentially equals the sum of wages and the imputed value of volunteer time. On this basis, the nonprofit sector in the U.S. accounted for 4.5 percent of total value added.


5. This section draws heavily on Lester M. Salamon, America’s Nonprofit Sector: A Primer (New York: The Foundation Center, 1999), Chapter 12, pp. 161–180.