

**The third sector in Europe:
Five theses**

Civil Society Working Paper 12

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February 2002

Abstract

In recent years, the third or voluntary sector has become more important for 'Europe', as indicated by the 1997 *Communication* of the European Commission and various *Declarations* attached to the EU Treaties. These official statements not only suggest greater political interest in the third sector, they also seem to indicate that the European Union is taking a more active role in policy-making in this field. What lies behind these efforts, what developments are likely to take place in the coming years, and how will they affect the third sector? These questions will be explored with the help of five theses against the background of recent research findings in the field.

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The third sector in Europe: Five theses

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In recent years, Europe has become more important for the third sector, and vice versa, as indicated by the 1997 Communication and 2000 Discussion Paper of the European Commission (1997, 2000); the attachment of Declarations to the EU Treaties (Kendall and Anheier, 2001[1999]); and various opinions expressed by the Economic and Social Council (1997, 1998, 1999). These official statements not only suggest greater political interest in the third sector at the political level, but they also seem to indicate that the European Union is taking a more active role in policy-making in this field. What lies behind these efforts, what developments are likely to take place in the coming years, and how will they affect the third sector? These questions will be explored in the context of five theses against the background of recent results from the Johns Hopkins Comparative Nonprofit Sector Project (Salamon et al, 1999b) and other research efforts (Priller and Zimmer, 2001; Rauschenbach et al, 1995; Evers and Olk, 1996).

1 Thesis one: Explaining the importance of the third sector in Europe

Thesis one: The growing importance of the third sector in Europe is fuelled not only by increases in the demand for social services but also by basic shifts in the structure of society, in particular the changing role of the state, a more confident middle class and demographic factors.

It is important to view the third sector in the context of more fundamental developments that are underway in European societies. One should avoid a position that sees the sector in isolation from changes in the state, the structure of the economy and the make-up of local communities, including the role played by the churches and other faith-based organisations.

What does this mean concretely? Data from the Johns Hopkins Project show that the third sector has grown significantly in all European countries where the sector's share of total employment could be compared for 1990 and 1995 (Salamon et al, 1999a). The Johns Hopkins data found growth rates of 20–30% over five years—rates that are well above what has been observed in the economy as a whole. In some countries they demonstrated that the above-average growth of the third sector could be observed as far back as the early 1970s (Anheier and Seibel, 2001).

What are the reasons for this growth? First, there is the general expansion of the service economy as European countries change from industrial to post-industrial societies. Employment in manufacturing has remained constant for much of the last 30 years and is slowly declining in many countries. Net employment growth is typically found only in the service industries

The shift towards a service economy, which benefited the third sector as well, has been reinforced by demographic developments, in particular the generation of baby boomers. In the course of their life cycle, this cohort has brought and will bring long lasting capacity expansions, from child care facilities in the 1950s, schools in the 1960s, universities in the 1970s and homes for the elderly in the coming decades. There has been an expansion of third sector organisations in these fields in part simply because there is more demand for their services.

Yet not only economic and demographic reasons have lead to the increased importance of the third sector. Political and ideological changes, too, have played a significant role. Specifically, political frameworks and resulting legislatures often decide how existing demand is channelled to the third sector. Indeed, the highest growth rates for the third sector are in those countries with policies that put in place some sort of working partnership between government and non-profit organisations (Salamon and Anheier, 1998). Examples are the principle of subsidiarity in Germany (Sachße, 1994), the system of 'verzuilling' in the Netherlands (Dekker, 2001), the concept of third party government in the US (Salamon, 1995), and, increasingly, the Compact in the UK (Deakin, 2000). In essence, such partnerships mean that non-profit organisations deliver services with the help of government funds, and typically as part of complex contracting schemes.

Nonetheless, there is a deeper ideological reason for the growth of the third sector: the changing role of the state itself. Even though some European countries see themselves in a different ideological tradition, the political currents of both neo-liberalism and Third Way approaches imply a reallocation of responsibilities between state and society (Giddens, 1998). The state, no longer so sure about its role, and without the vision that characterised the social reforms of the 1960s and 1970s, proclaims the active citizen—a citizen who assumes new and old freedoms and responsibilities in the sense of classical liberal republicanism.

Combined with economic policies that emphasise privatisation of state corporations and holdings, recent years have seen a pan-European movement that puts virtually all non-essential state functions and public agencies under political pressure and under the realm of New Public Management (Ferlie, 1996). This includes the various Telecoms, municipal waterworks, universities, hospitals, chambers of commerce and regional state banks. The privatisation of social security—unthinkable even a few years ago—has now entered the political agenda. The political and institutional consensus of the late industrial society is breaking up.

An economic, political and social space is opening up for the third sector. There are traditional non-profit and voluntary organisations but also new forms of work and organisations. Examples are the new mutualism in Britain (Yeo, 2001), the social co-operatives in Italy (Barbetta, 1997), the search for new legal ownership structures to combine charitable and for-profit activities, and individual

attempts to combine paid and unpaid work (Social Investment Task Force, 2000)—all these are indicators of fundamental shifts occurring in society. In other words, the growth of the non-profit sector is more than a quantitative phenomenon: it is a qualitative change as well.

Yet, if this is the case, it begs the question: From where does all this energy come? What social forces are at play? Ultimately, it takes people to act, and even though social scientists speak in abstract terms of institutional shifts and political changes, such shifts and changes have to be enacted. In the economy, we look for entrepreneurs, employers, employees and consumers; in politics, we look for politicians, voters and bureaucrats; yet where and what do we look for in the case of the third sector?

Of course, there are social entrepreneurs, managers, employees, volunteers, users and clients in the third sector, but there is something perhaps even more basic at work: self-organisation—the capacity of citizens to organise around shared interests and needs outside the market and without being mandated to do so by the state. This is the civil society aspect of the third sector: the sum of private action in the public interest, serving the public good. It is important to see that these activities, often in organisational form, happen at a time when the collective and common good and the common weal have become more contested than at any other time during the last decades. There is less agreement about what the public good is than in the past, as Mansbridge (1998) and others suggest.

In societies with different views of the public good, the third sector creates institutional diversity, contributes to innovation and prevents monopolistic structures by adding a sphere of self-organisation next to that of state administration and the market (Prewitt, 1999). Indeed, some economic theories locate the very origin of the non-profit sector in demand heterogeneity (Weisbrod, 1988)—yet it is only now that we begin to understand the policy implications of such theorising. The third sector can become a field of experimentation, an area for trying out new ideas that may not necessarily have to stand the test of either the market or the ballot box. In this sense, the third sector adds to the problem solving capacity in modern societies (see also Kendall and Anheier, 2001).

Why is self-organisation more pronounced today than in the past? In essence because of the significant growth of the middle class over the last decades, and the parallel value shift that no longer lodges the responsibility for social security, cultural activities, educational programmes and environmental concerns exclusively with the state. Of course, citizens still expect the state to do much, but certainly less than in the past. This is not necessarily because citizens distrust the state more; rather, they have more trust in themselves and in the societies in which they live.

2 Thesis two: Third sector stability

Thesis two: The third sector itself is undergoing far-reaching changes in its composition and financial structure that have long-term implications and may threaten the viability of some its parts.

But is all well? The third sector, at first glance seemingly part of the way in which a post-industrial order is emerging from industrial society, will undergo far-reaching changes itself. In many European countries, the sector has grown in part because significant amounts of public funds were made available to non-profit organisations. Some have become very large indeed; the largest private employer in Germany is Caritas, the Catholic welfare association, with over 350,000 employees. Italian or Dutch figures are not much behind, as they would be for the French networks of non-profit providers such as *Séours populaires*. Public support for the third sector, however, seems to have reached its limit, and major cutbacks have hit many non-profit organisations hard in recent years—a trend of government withdrawal that is likely to continue in the future. Even though some countries have seen an unprecedented increase in government support, such as the UK (Kendall and Almond, 1999), it is in particular in countries like Germany and France where public funds have a much longer history as the major source of non-profit revenue, that cutbacks are felt most (Priller and Zimmer, 2001).

Government cutbacks are often associated with a greater reliance on fees and charges, and other forms of quasi-market revenue too readily equated with outright commercialisation. But more often it is the increased presence of for-profit providers and the competition that comes with it that tempts non-profit providers to mimic the revenue seeking behaviour of forprofits, particularly in the field of social services and health. In other word, nonprofits are becoming more like forprofits.

But the migration of some parts of the third sector into commerce should not be of too much concern. This is part of self-organisation and, there are good economic theories based on transaction cost thinking which predict that what began as a nonprofit must not always remain so throughout the organisational life cycle (Ben-Ner and Gui, 2002; Anheier and Ben-Ner, 1997). Supply and demand conditions change, and with them organisational forms. What seems clear is that the present size of the non-profit sector can only be maintained if the sector finds more sustainable revenue structures and more refined and appropriate management models (Frumkin and Andre-Clark, 2000).

At the same time, major changes are being introduced, again via the social services field, and the health area. As recently as ten years ago, policymakers and scholars could work on the assumption that social and health policy were largely a matter of member states and national concerns (but see Leibfried and Pierson, 1995). Initially, and according to the Treaty of Rome, the EU had only a limited competence in social affairs. This changed with the Treaties of Maastricht and Amsterdam, when EU competencies were somewhat expanded. Although the full implications of greater EU

competencies in social affairs are long-term and are difficult to gauge at present, it seems likely that we are at the beginning of a process of 'Europeanisation' of social services and social security systems. The way in which this Europeanisation can happen, however, is less than obvious.

First, within the framework set by the Maastricht and Amsterdam Treaties, social security, health care and social services will be organised according to the principle of subsidiarity. This means that the EU would gain only as much legal and political competence as needed, whereas member states would retain the highest level of policymaking capacity as possible. Second, this basic framework is simultaneously being tested from various sides, which may well lead to a Europeanisation by stealth, fuelled by market forces rather than EU policies as such.

Subsidiarity

The subsidiarity framework is a largely formal principle, but lacks substantive content in terms of social policy objectives and directives. In other words, subsidiarity specifies how policies are implemented, not for what purpose and substantive objective. Not surprisingly, therefore, the goals of European social policy continue to remain fragmentary and subject to developments in other policy fields that are more advanced in their objectives, in particular enterprise and competition policies. As a result, there is slow erosion of state sovereignty in the social policy field which de facto limits the capacity of member states to design and implement adequate measures at member state levels (Leibfried and Pierson, 1995).

Amsterdam treaty

Even though the European Commission had no central role in social policy until recently, Article 137 of the Amsterdam Treaty changed this in a significant way and allocated competence to the EU in a number of major fields. Moreover, the number of fields explicitly exempted from EU policy competence has been reduced. In this context there is a clear deficit in EU policy-making: the capacity of the EU in terms of policy formulation, making and implementation does not grow at the same rate and quality as the capacity of member states is being reduced. As a result, there is a growing imbalance in legal competence, knowledge and expertise in social policy fields, carrying with it a great potential for unintended consequences and negative developments.

Deregulation

Next to direct measures, other EU activities have significant consequences for social policy and the third sector. This is the case whenever the EU becomes active in policy fields that are linked to social services in the broadest sense. EU competition and deregulation policies, e.g., in the insurance industry, may have repercussions on the financing of social services and change the cost and revenue situation of provider organisations.

Related to this is the greater marketability of some social services, which attracts commercial providers, in addition to the more traditional organisations in the field, typically either non-profit organisations or public (state) agencies. The introduction of long-term care insurance in Germany in 1995, for example, brought with it a substantial growth in the number of for-profit providers in a field that had traditionally been populated by charities and similar organisations.

Cross-border trade and mobility

At the same time, fuelled *inter alia* by the greater mobility of employers, employees and professionals and retirees alike, there is growing demand for cross-border provision of social services. Particularly in the aftermath of recent decisions by the European Court of Justice, such as Kohl (C-158/96) and Decker (C-120/95), it is likely that the social security and social service systems of member countries will become increasingly open. In this context, many critical questions arise in terms of competition among social service systems and the associated problems of social dumping and free riding, leaving aside the immense array of technical and administrative issues when it comes to eligibility, accountability and financial coverage of what kind of services to what type of user.

European social policy in the social service field is thus confronted with great challenges, which will become even more acute with the scheduled accession of countries from central and eastern Europe. Most likely, social policies at the EU level and in individual member states are likely to change in the coming years due to increased demand, marketisation, free flow of goods and services and other factors. Given these challenges, it would be necessary to develop effective and innovative policies, to test different policy scenarios, and to explore the implications and effects of policy decisions on the quantity and quality of social services supplied.

The policy community in Brussels and at the national levels are frequently faced with the great challenge of coming to terms with the very different national cultures, laws and policies in the social service field. While the EU has achieved some common policy terrain in other fields like agriculture, manufacturing or banking, it lacks such a platform when it comes to social services.

3 Thesis three: Modernisation and regeneration of the third sector

Thesis three: Europe offers the third sector the chance to modernise and regenerate: to grow beyond structures that reflect industrial rather than post-industrial societies; and to bypass national legislation that may discourage non-profit growth and sustainability.

Self-organisation, commercialisation and service to the public good do not occur in the same way and to the same levels across Europe. Europe has very different models when it comes to the third sector:

- The French notion of the 'économie sociale', which emphasises economic aspects, mutualism and the communal economy (Archambault, 1996);
- The notion of associationalism in Italy, seen as a countervailing force against both church and state powers at the local level (Barbetta, 1997);
- The German tradition of subsidiarity, which provides a comprehensive framework for the relationship between the state and third sector in the provision of social services (Anheier and Seibel, 2001; Zimmer, 2001);
- The Swedish model of democratic membership organisations in the form of broadly based social movements whose demands are picked up by the state and incorporated into social legislature (Lundstrom and Wijkstrom, 1997); or
- The pragmatic patchwork of the British welfare system with a nationalised health care system and a decentralised, largely private systems of charities in social service provision (Kendall and Knapp, 1996).

What these various models tend to have in common is that they emerged in their current form during the industrial era in the first half of the 20th century, and typically responded to the social question at that time¹. Because they developed at a time when the role of the state was different, and when the constitution of society was not that of a post-industrial economy, with a shrinking working class and an increasingly affluent middle class, there are frequently significant mismatches between reality and potential. In France, restrictive laws currently prevent the full development of private non-profit action, particularly foundations. The French state continues to find it difficult to accept the notion of private charity and private action for the public good, sticking to the 19th century notion that the state is the clearest expression of the common weal. In Germany, the large network of free welfare associations remains wedded to the 19th century civil law concept of ideal organisation in an attempt to avoid competition and to maintain their privileged funding position with the state. In Britain, chronic weakness in local governments have combined with centralising funding tendencies from Whitehall to make it difficult for genuine local partnerships to develop in efficient and effective ways.

In these respects Europe offers national third sectors opportunities to overcome at the European level what national laws, politics and interests make more difficult to achieve.

This is the essence of thesis three:

- The French third sector can step over restrictive national legal structures by registering as a European association in Brussels. Indeed, as Kendall and Anheier (1999) argue, French lobbyists have been hardest at work to push for a European association law.
- The German non-profit organisations will sooner or later be subject to the anti-monopolistic shake up that the national government finds too risky politically to take on domestically. For instance, the influential 'Monopoly Commission' published a critical assessment of the free welfare associations on behalf of the German government.

¹ The main exception to this generalisation is the charity law component of the policy environment in England, which dates back to pre-modern and even mediæval times (see Kendall and Knapp, 1996, chapters 2 and 3). However, the establishment of the National Health Service and major policy models for the voluntary sector began shape in the late 1940s.

- The Italian third sector could escape the stalemate created by an overbearing but ineffective state and penetration of party politics, particularly at local levels (Barbetta, 1997).
- The UK voluntary sector already sees in the EU a welcome source of additional funding; it could broaden this perception to think of the EU more systematically as a potential counter-force to play-off a centralising and controlling state. Here devolution combined with EU opportunities, will open new space for third sector organisations, particularly under local compacts. The voluntary sector in Northern Ireland (Williamson and McCall, 2000; *Voluntas* special issue on Ireland, North and South, 12(4)) and Scotland are much ahead of England in this respect (NCVO and CCS, 2001).

Europe could ultimately mean an increase in 'space' for the third sector—a deregulation of national structures that could amount to a much-needed modernisation push for the third sector. This will lead to many changes at national and local levels over the next few years.

4 Thesis four: Paving the way for a European civil society

Thesis four: The third sector offers Europe the chance to build the basics for a future European civil society that can give the idea of Europe meaning in a Union that seems dominated by a common market and a common political structure but with no equivalent 'society' to support it.

Yet what does the third sector offer Europe? According to thesis four, the answer is simple but full of implications: the third sector offers Europe the chance to help build the organisational infrastructure for the development of a European civil society. Next to the common political institutions and the common market, there needs to be a closer network of private organisations that operates across borders—no longer fully part of one country, legal system, polity or culture alone. There are already many examples of such organisations, from GreenPeace and Amnesty International to the Red Cross and from cultural organisations and university programmes to social service organisations and European NGOs working together in Bosnia. Town twinning programmes and the numerous exchange initiatives in culture and sports are part of this development. This associational infrastructure can become an important ingredient for building a European civil society.

Clearly, political and economic changes that are underway have increased the importance of the voluntary or non-profit sector and brought it closer to the attention of policy makers. Privatisation efforts, the use of New Public Management, and the need for innovations in social service delivery, health care and education involves a number of major challenges for the third sector. Specifically, the voluntary sector faces a wider range of demands for its services and activities from a variety of different 'stake-holders' that are increasingly located at a European level. Importantly, governments are 'down-sizing', and are in a process of 'off-loading' some of their traditional tasks to private, non-profit institutions and commercial providers. In an era of budget-cutting, lean management, and privatisation efforts, the voluntary sector is confronted with great challenges and opportunities. Will the non-profit sector be able to meet these challenges, and should it seize all opportunities created by a retreating state? While accounts differ on the extent to which they diagnose a zero-sum relationship

between the state and third sector, they are generally doubtful as to the sector's ability to compensate for public provision beyond some level (see Salamon, 1995; contributions in Anheier and Kendall, 2001).

Ultimately, there needs to be a re-examination of the relationship among the four great institutional complexes of households/families, businesses, government and associations/foundations to the public good and the collective well-being in present and future societies. There are core government functions like defence, the rule of law and basic infrastructure. There are also pure private goods that are best handled by markets. In between these extremes, however, is a vast array of goods and services that are either quasi-public or quasi-private, and that is where most of the current disagreement about the meaning and culture of collective goods takes place. Importantly, new organisational forms emerge primarily in the contested terrain, and it is also here, that most of the growth of the non-profit sector has occurred. It is important to keep in mind that in these fields, two and typically three organisational forms are possible, and that the non-profit form is only one of other possibilities.

There is likely to be greater differentiation in the non-profit sector. Some organisations will move closer to market firms, or relocate altogether. Other organisations increasingly close to governments, such as, NGOs in international development finance, will become more agency-like over time and resemble public bureaucracies. Some will remain non-profit organisations in the conventional sense. Yet above and beyond the differentiation of the third sector, more fundamental forces are at work once the combined impact of similar differentiation processes—which are also happening in the public and the for-profit sector—are considered. Economists like Hansmann (1996) and Ben-Ner and Gui (2002) have begun to explore these issues, largely within a transaction cost framework, but much more remains to be done.

A fruitful way forward to understand the forces behind these differentiations, and the implications they have, is to bring in insights of organisational theory, in particular population ecology (Aldrich, 1999). This sees organisational forms basically in more or less open competition with each other. While policies define the rules of competition, over-time mismatches develop between the potentials and constraints they impose on forms, and thereby either increase or decrease their competitive edge over others. Some of the underlying forces responsible for mismatches are related to the heterogeneity and trust theories mentioned above: changes in the definition of goods and services, and changes in information asymmetries, among others (see contributions in Anheier and Ben-Ner, 2002).

These dynamics lead to shifts in the composition of organisational fields in terms of form. Yet where do forms come from? Organisational theory points to two basic processes that lead to the development of new forms, or speciation: recombination and refunctionality (Romanelli, 1991).

Recombination involves the introduction of new elements into an existing organisational form, for example bench-marking, franchising, branding and other corporate management tools in non-profit organisations, or corporate responsibility programmes in businesses. Refunctionality means the relocation of one form in a different context, e.g., the migration of for-profit providers into fields previously populated primarily by nonprofits—as in social services.

The two processes of recombination and refunctionality are, and have been, happening at greater rates in recent years. A core hypothesis that would demand careful empirical examination is that after some point, most of the recent non-profit growth was a result of recombination and refunctionality rather than a linear, quantitative expansion. Could it be that recombination and refunctionality processes have achieved such proportions that they triggered a qualitative change? Against this background, and in conclusion, this paper proposes the following thesis:

5 Thesis five: Explaining the growth of the non-profit sector

Thesis five: The growth of the non-profit sector is more than an intrinsic, quantitative expansion in size and scope; it is indicative of qualitative changes in the composition of organisational forms across different branches and segments of the economy, both private and public.

In other words, the vehement growth of the third sector could point to the very end of its current form and structure. It suggests the possibility of new organisational forms that go beyond the sector boundaries (state, market, third sector) of the late industrial era that tended to take shape with the development of the welfare state in OECD countries, and the independence period of the 1960s for most developing countries. Transition economies are in a different situation, but they model themselves largely after the developed market economy generally, and EU member countries particularly. In this context, it is important to note the efforts in a number of European countries to modernise associational and corporate law to allow for greater flexibility in the legal forms not-for-profit organisations can take. The efforts of the Policy Innovation Unit of the Cabinet Office in the UK, the reforms of German foundation law, and the social investment funds internationally are examples. In one way or another, they are all attempts to push the boundary of current policies and laws.

To announce the end of the third sector may be premature; what is certain is that the sector finds itself at a crossroads: to what extent can and should third sector organisations step outside and beyond conventional models, rules and regulations? And most importantly: to where do the different roads lead?

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