

EUI WORKING PAPERS

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**Beyond Market and State
Alternative Approaches to Meeting Societal Demands**

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and JEREMY MOON

Introduced by
GIANDOMENICO MAJONE

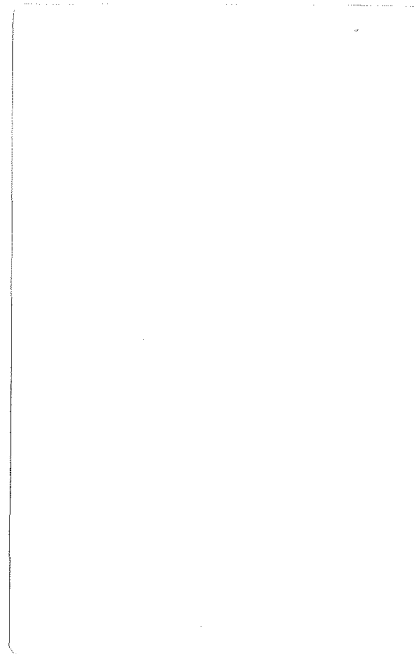
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FOREWORD

The workshop at which these papers were originally presented came about through reasons of serendipity. We, the three principal authors, met by virtue of our all holding Jean Monnet Research Fellowships at the European University Institute, 1988-89. We discovered that we had a common interest in responses to societal demands which could not adequately be accounted for by the familiar State and Market models. The Workshop (whose stated purpose we reproduce below) was organized to air questions, ideas and findings, and to invite critical comment from colleagues within and from outside the Institute.

"The purpose of the workshop is to discuss Non State and Non Market activities in response to societal demands. These activities have collectively been referred to as the Third Sector, which encompasses a range of Non Governmental Organizations whose prime purpose is not the acquisition of profits as a result of activities in the market. Thus, for example, in the fields of international aid, the production and distribution of culture, and local economic development we have witnessed the emergence of just such organizations with accompanying alternative policy processes. Indeed there is much evidence to suggest that in these and in other policy areas, national governments and the EC are making increasing efforts to offer scope to this Third Sector in their own policy practices

These developments, and the associated selective inadequacies and failures of more conventional State and Market mechanisms, have attracted the attention of specialists in the fields of economics, law, political science and sociology. Our intention is to bring together these different analytical approaches in order to create a broad perspective on a number of questions, for instance;

- (i) what explains the emergence of the Third Sector?

- (ii) what are the particular capacities and constraints which the Third Sector offers in contrast to simple State or Market mechanisms?
- (iii) what are the relative achievements of Third Sector activities?
- (iv) to what extent does the Third Sector complement, duplicate, replace, or compete with State or Market actors?

Clearly it would be too ambitious to expect to resolve such issues in one day! The intention is then that the Workshop will constitute a catalyst for further inter-disciplinary inquiry and discussion."

We would be pleased to hear from any readers with similar interests, and/or with criticisms. Correspondence should be via our home institutions (see addresses in the Contributors section).

LB, MG, and JM.
Florence, 1989.

Introduction

Giandomenico Majone*

The key question for a theory of (private) nonprofit or "third sector" institutions is why organizations of this type emerge at all in an environment which provides other institutional possibilities - for profit firms and bureaucratic agencies. As the papers included in this publication make clear, the answers given to this question vary according to the disciplinary background of the author and to the field of activity being investigated.

Indeed, considering the enormous variety of activities and institutional forms that any reasonable definition of the third sector would include, one may doubt whether any general theory, comparable to the economic theory of the firm or the Weberian theory of bureaucracy, is possible in this area. For all its empirical richness and theoretical sophistication, the literature on the nonprofit sector has not yet produced models of great generality. It is quite possible that different explanations will have to be worked out for different cases.

However, this does not mean that scholars should give up the attempt to identify structural elements common to all, or at least to many, nonprofit institutions. Professionalism appears to

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be one such common element. It is a fact that many nonprofit organizations of the service type are largely populated by professionals. It is also true that in not advanced industrial societies the increasing rate of professionalization has been accompanied by an impressive growth of the nonprofit sector. As I argued a few years ago (Majone, 1984), these two developments may be causally related: the fact that many professionals choose to work in nonprofit organizations gives at least prima facie evidence that these institutions may be successful in reducing the conflict between a professional orientation, on the one hand, and the immanent logic of either for-profit or bureaucratic organizations, on the other.

This conflict is a recurrent theme in the literature dealing with organizations and the professions, yet an explicit conceptual link between professionalism and nonprofit organization has apparently never been forged. Most analyses of the strains and accommodations between professions and organizations have focused on private for-profit enterprises or on public bureaucracies, with nonprofit organizations, at best, seen as a residual category. Given the dominance of professionals in most service nonprofits, this bias is rather surprising.

In fact, many features that are generally considered to be specific characteristics of the professions - autonomy, altruism, an emphasis on quality of service, and a certain anti-market and anti-bureaucratic ethos - have also been singled out, quite independently, as the raison d'être of nonprofit institutions. Professions and nonprofits have each been praised as positive forces in social development, standing against the excesses of both profit-driven individualism and bureaucratic collectivism. And they have each been accused, in essentially identical terms,

of elitism, lack of accountability, inefficiency, and exploitation of the consumer.

The striking parallelism of independent analyses of professionalism and nonprofits suggests that the sociological concept of nonprofit organization, which at first sight seem to be quite unrelated, may in fact be sufficiently close to each other to call for a theory relating them. The theory presented in the paper cited above (Majone, 1984) focuses on the problems of controlling and evaluating professional work. Professionals in for-profit organizations must submit to the control of a manager who is motivated to overrule them whenever their decisions come into conflict with the goal of profit maximization. Bureaucratic organizations, on the other hand, stress predictability of results and adherence to rules as the overriding criteria of evaluation and control.

Given the objective difficulty of monitoring professional work and the importance of professional autonomy, nonprofit organizations are on the whole superior from the point of view of professional ideology and practice. These advantages are related to certain characteristics of nonprofits that affect the management control process in those organizations: the absence of the profit measure; the difficulty of measuring performance and evaluating quality; the limited role of market forces; and the absence of a well-defined chain of authority.

Thus, other things being equal, nonprofit will be favored by the professional who is principally committed to s or her organized craft. This does not mean that nonprofits will eventually displace all other types of professional of organization. Rather, different organizational modes will

continue to coexist and to appeal to different segments of the professional population.

Any improvement in the match between type organization, method of control, and attitudes toward work can only lead to an increase in social efficiency. As the authors of the following papers emphasize, albeit in different ways, the existence of a healthy third sector, between market and state, is an essential condition for solving the increasingly complex problems facing our societies.

Reference

Giandomenico Majone, 1984: professionalism and Nonprofit Organizations, Journal of Health Politics, Policy and Law, vol. 8, No. 4, 639-659.

NONPROFIT ORGANIZATION IN THE PRODUCTION AND DISTRIBUTION OF CULTURE

Dr. Léonce Bekemans

ABSTRACT

The purpose of my contribution is to summarize our knowledge on the role of the nonprofit organization in the production and distribution of culture. This is done from an economics' standpoint. The discussion is set in the framework of the limits and possibilities of the application of a scientific (economic) approach to a sector determined by creativity and diversity. We are in the territory of cultural economics.

By culture, a very slippery concept, I mean symbolic works produced in formally organized sectors of the economy, i.e. materials produced for an audience and distributed through established channels. In other words, I only refer to institutionalized culture, i.e. the forms of culture that are produced and distributed with a resorting to formal organizations or markets. Within the domain of institutionalized culture, the focus lies merely on the arts in the broad sense of the word.

In my presentation I limit myself to an overview of the (conceptual) economic explanations of nonprofit organizations and their applications to the production and distribution of culture, with some indications for possible research. Two questions can be dealt with: 1. What is the explanation for the varying prevalence of the nonprofit enterprise among different cultural industries in the production and distribution of culture? 2. What will be the behavioural consequences if cultural organizations are nonprofit as opposed to profit-seeking?

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I. Introduction: the economics of nonprofit organizations

Serious work on the economics of the nonprofit sector began in the early 1970s (Hansmann 1987; Powell 1987; Rose-Ackerman 1986; Salamon 1987; Weisbrod 1977 and 1988). Broadly speaking, in the past few years two formal economic theories have been advanced to explain the existence of the nonprofit sector:

1. the public goods theory

This theory considers the existence of the nonprofit sector as the combined product of market failure and government failure, i.e. of inherent limitations in both the market and the government as providers of collective goods (Weisbrod 1977). Collective goods are products or services which, once they are produced, are enjoyed by all people whether they have paid for them or not. Providing such goods exclusively through the market will ensure that they are in small supply since few consumers will voluntarily pay for products they could enjoy without having to pay. With the market demand being low, producers will produce less of these goods or services than the public really needs or wants. This problem is commonly referred to as the "free rider" problem, and in traditional economic theory it serves as the major rationale for government intervention. Since government can tax people for producing collective goods, it can overcome this market failure.

However, the government, too, has certain inherent limitations as a producer of collective goods. It is most important to consider that in a democratic society it will produce only that range and quantity of collective goods having a majority support. This will of course lead to some demands not being met. To meet such demands for collective goods a nonprofit sector is needed. According to the theory, nonprofit organizations therefore exist to supply a range of collective goods desired by a segment of a community but not by a majority. In other words, nonprofit organizations provide collective goods and are financed by voluntary donations from people dissatisfied with the low levels of government activity. As a result, the more diverse the community is, the more extensive the nonprofit sector it is likely to have, will be.

2. The contract failure theory

The second broad theory on the nonprofit sector attributes the existence of nonprofit organizations to a different kind of market failure, i.e. contract failure and information asymmetry (Hansmann 1981 and 1987). This theory emphasizes the tasks which nonprofit organizations can perform better than profit-seeking firms. The central notion is that in the case of some goods and services, the purchaser is not the same as the consumer. In these circumstances, the normal mechanisms of the market, which involve consumer choice on the basis of adequate information, do not apply.

Nonprofit organizations will arise in situations where the consumers feel unable to accurately evaluate the quantity and the quality of the product or service. On account of the distribution constraint (i.e. it prohibits the distribution of residual earnings to persons who exercise control over the firm), the non profit organization offers the consumers the advantage of the provision of higher quality services.

Nonprofit organizations as a group share at least two basic characteristics: 1. they do not earn pecuniary return on invested capital; and 2. they claim to serve some social purpose. The significant point is that the objectives of the typical non profit organization are by their very nature designed to keep the organization constantly on the brink of financial catastrophe; for such a group, the quality of the services it provides becomes an end in itself.

Nor only through its quality aspirations do the social goals of the nonprofit enterprise contribute to its financial contributions. The concern of the typical nonprofit organization for the size and composition of its clientele often causes operating revenue to be lower than if services would be priced to achieve a simple profit-maximization goal. In short, a low price for the product of a nonprofit group is normally an inevitable consequence of its objectives.

The desire to provide a product of as high a quality as possible and to distribute the product in a manner other than that which maximizes revenue, creates another unusual situation. For such an enterprise a substantial increase in the demand for its product may well worsen the organization's financial health. An increased number of orchestral performances may well increase the size of the contributions required for solvency.

II. Data-setting

It is apparent that all of the standard problems of nonprofit organizations which have just been discussed, beset the organizational structures of the production and distribution of the arts. Today, the live performing arts, including orchestral music, opera, theatre and ballet, are for a large part the product of nonprofit institutions. It should not be forgotten that in the past profit-seeking institutions were apparently a rule rather than an exception in the performing arts; not only serious theatre but even symphony orchestras were usually proprietary. The dominance of nonprofit institutions in this industry is largely the product of recent decades. In the following I give a few indications of the situation in the performing arts in some European countries.

1. Music

Some sectors of the music industry are almost entirely proprietary in form, i.e. the manufacturing side of musical

industries and the record industry. One segment of the music industry in which nonprofit organizations are dominant, is the live presentation of classical and fine arts music. The situation is similar in opera. The French case is a good example (Busson and Evrard 1987).

France: - opera: public sector comprises the Réunion des Théâtres lyriques nationaux (RTLN) and the Réunion des Théâtres lyriques municipaux (RTLTM); some independent companies; no private production.

- symphonic orchestra and chamber music: mainly public (Orchestre de Paris, Ensemble intercontemporain, Ensemble orchestral de Paris) and regional orchestras; well-developed independent sector comprising the big symphonic associations of Paris (Colonne, Pasdeloup, Lamoureux).

- popular music and jazz: the private sector is the main provider (80%).

- music recording: highly concentrated industrial organization in the distribution consisting of a few companies (Polygram, Virgin, Erato, CBS etc.).

2. Theatrical performance: live theatrical performance is neatly segmented and divided among the nonprofit and profit-seeking sector. The most artistically dynamic sector of the theatre industry is the resident stage of which the form is often nonprofit. Some ad-hoc figures may indicate this segmentation in a few European countries (Laurent 1985, Jaumain 1987, Muti 1987).

France (1985): - public sector: 5 national theatres (of which 4 in Paris: la Comédie Française, l'Odéon, le Théâtre Chaillot, le Théâtre de l'Est parisien et le Théâtre de Strasbourg), 40% of total subsidy; 32 national drama centres (i.e. private law, contract with the state, 20% earned income);

- private sector: about 50 theatres, nearly all situated in Paris.

- independent sector: among the more than thousand professional or semi-professional independent theatre companies, 435 groups received subsidies in 1985 (only 272 in 1987). A distinction is made between the 140 theatre groups "hors commission", which negotiate their conventions directly with the Direction of Theatre and the more than 300 groups "en commission", of which the projects are evaluated by an advisory board.

FRG.: In the 1984/85 season there were 87 public theatres (Staatstheater, Stadttheater, Stadtebundtheater and Landestheater) which received 97% of the subsidies and 80 private theatres; audience 6 mil vs. 4.4 mil.

UK.: - public theatre is financed by the Arts Councils. A distinction is made between regularly subsidised theatre groups (revenue funded clients, more than 90% of the theatre subsidies in 1985/86) and companies financed by project (project funded clients). The revenue funded groups comprise two National Companies (the National Theatre and the Royal Shakespeare

Company, 45% of theatre subsidy), the building based companies (40%) and the touring companies (8%). The project funded clients are mainly small experimental groups which receive one time subsidies.

- private theatre: Society of West End Theatre is an association of 47 theatres.

Italy (1985): 15 resident theatres with public management, 12 resident theatres with private management, 68 private companies, 60 co-operative groups, 18 theatre groups with production and promotion activities, 118 experimental companies and 76 companies for children.

3. Visual arts and exhibitions

Visual arts production is primarily corporate or individual in organization. Most craft artists, painters and sculptors are solo practitioners operating directly on the market rather than employees of organizations. The distribution of fine arts painting, sculpture etc. is dominated by proprietorship, primarily galleries and dealers. The nonprofit form is more important in the exhibition of art, e.g. the nonprofit form of museums. In the FRG, for example, 23% of the museums are state-owned, 63% are city-owned, 14% are privately owned.

These few data show that the relative importance of the nonprofit form varies less between the artistic media (visual, musical, dramatic) or organizational functions than within them.

Most arts industries perform both profit-seeking and nonprofit activities: scholarly and poetry presses in the book publishing sector, classical music producers in the music industry, museums and commercial art galleries in visual arts. This may lead us to an inductive summary with three working hypotheses:

1. Labour-intensive cultural activities tend to be organized in the nonprofit form, whereas those which are capital-intensive are more often organized on a proprietary basis.
2. Cultural activities associated with high-art forms tend to be organized in the nonprofit form, whereas those which are associated with popular culture are more likely to be organized on a proprietary basis. The high-art forms are particularly labour-intensive, relatively unlikely to use media technologies for distribution, and are thus unable to realize substantial economies of scale.
3. Within the non-commercial sectors, cultural activities which serve large publics or which are closely linked to the official aims of public education tend to be organized as public agencies, particularly libraries and history museums, whereas activities with narrower audiences or less clearly educational purposes tend to be organized as nonprofit organizations.

These working hypotheses need of course some qualifications:

- a. Not all high art forms are produced by nonprofit organizations. Some segments of high-culture production and

distribution are dominated by profit-seeking producers: e.g. literature, classical music recording, and commercial art galleries;

b. Most creators of high art are often sole proprietors dealing with proprietary and nonprofit firms by means of selling or concluding contracts;

c. Predominantly nonprofit industry segments often have islands of profit-seeking islands within them;

d. Profit-seeking cultural sectors, especially those using mass production and distribution technologies, have oases of non profit activity (e.g. public broadcasting);

e. Not all labour-intensive artistic work is nonprofit (e.g. performers of popular music).

In short, the respective roles of proprietary and nonprofit organizations are often difficult to sort out. Therefore, empirical research needs to be undertaken cultural sector by cultural sector to verify the hypotheses, taking into account the diversity of cultural patterns in the countries.

III. Nonprofit organization of the production and distribution of culture

III.A. Economic approaches to organizational structures

Only recently the literature on cultural economics has addressed the question of organizational structures of the production and distribution of culture (Blaug 1976; DiMaggio 1986 and 1987;

Hansmann 1981). In the following we review the main economic approaches which tend to explain the organizational structure of the production and distribution of culture.

- Baumol's cost disease

A first explanation can be found in the works of Baumol, a leading exponent of the positivist economics of culture. About twenty years ago professors Baumol and Bowen wrote a comprehensive report on the economics of the performing arts in the USA: "Performing Arts: the Economic Dilemma, A Study of Problems common to Theatre, Opera, Music and Dance" (Baumol and Bowen 1966).

The conventional explanation for the prevalence of non-proprietary organizations in some cultural fields is that there are no profits to be made there. Baumol analyzes the prospective developments on the cost side by looking at the implications of differential rates of growth in productivity within the economy. In an economy divided into two sectors: one in which productivity is rising and another where productivity is stable, it is apparent that the live performing arts belong to the constant productivity sector of the economy.

According to the classic exposition of this view, the arts are a service industry and, as such, are highly labour-intensive. In contrast to the situation of manufacturing firms, which can increase productivity by implementing technical innovations,

productivity increases in the field of arts are limited. The theatre, symphony orchestra, chamber group, opera, dance, all can serve as textbook illustrations of activities offering little opportunity for major technological changes. The output per man-hour of a violinist playing a Schubert quartet in a concert hall is relatively fixed; it is quit difficult to reduce the number of actors needed for a performance of Shakespeare and one cannot simply order a symphony orchestra to play twice as quickly.

Arts organizations operate in an economy which has a large manufacturing sector. As productivity in manufacturing on account of improvements in production efficiency, manufacturing wages increase. Because arts and other service-providing organizations compete for labour with manufacturing firms, non-manufacturing wages are also levelled up. Increasing wages cause the production costs of arts organizations to spiral beyond what the organization can hope to earn. Therefore, live performing arts organizations suffer from a cost disease on account of which they require ever-increasing quantities of subsidies.

However, performing arts organizations can use some strategies for reducing their production costs:

- They can reduce the rate of increase in their unit costs by permitting some deterioration in the quality of their product, by having fewer rehearsals, by using less well-trained performers, and by using costumes and scenery of a lower quality. However, such a course of action is never popular with organizations

dedicated to quality, and, furthermore, it may lead to loss of audience and community support.

- There is one other important way for performing arts to save costs, i.e. through wages paid to performers. The live performing arts form a rather special labour market, i.e. a market in which the need for great natural ability and extensive training limits the supply, but in which the non-economic returns offer substantial inducement to remain in the field. In other words, the performing arts are relatively insensitive to general wage trends, especially in the short run.

It is mainly for this reason that performing arts organizations in financial difficulties have often managed to shift part of their financial burden back to the performers and the management, who are usually very poorly paid according to commercial standards. An explanation frequently given for this refers to the willingness of those working in these fields to sacrifice money income for the less material pleasures of their participation in the arts. Although there are limits to these financial sacrifices, excess supply continues to be one of the market's most notable characteristics.

Still some questions remain unanswered:

- a. It is difficult to distinguish increases in operating costs from the costs of organizational growth.
- b. It is difficult to distinguish declines in the percentage of earned income from those reflecting increases in the volume of

funding available from foundations, corporations and the public sector.

c. If one follows the cost-pressure argument one would predict that the performing arts organizations would have expired long time ago.

d. The approach does not allow for the dynamic process to be taken into account (i.e. changing nature of artistic conventions, changes in tastes, alternative strategies for increasing productivity, etc.).

In most of the European countries data and results have confirmed the thesis of Baumol. The hypothesis of the rapid increase in the costs of life performance has been verified as well as the difficulty of cultural organizations to reduce the income gap. In sum, Baumol and Bowen's analysis explains the need for subsidy, not the nonprofit form per se.

- Hansmann's voluntary price discrimination

A second theoretical explanation is provided by Hansmann (Hansmann 1981). His starting point is the observation that nearly all nonprofit performing arts organizations are for a great part dependent on donations. This pattern of financing provides a preliminary explanation for the predominance of the nonprofit form in the cultural industry. But why are the performing arts to such a great extent financed by donations?

We start with two critical observations:

a. In sectors such as education and health donative financing of nonprofits products sometimes serves as a means to support the private production of public goods. In accordance with this notion, it has frequently been argued that the performing arts exhibit substantial beneficial externalities which in turn provides a rationale for both public and private subsidies. For example, prominent cultural institutions give prestige and bring tourism to both the city and the nation. However, it does not appear that such external benefits are a major stimulus for the donations received by the performing arts groups. Indeed, the evidence proves quite the opposite, for it appears that most donations received by performing arts organizations come from people who actually attend the groups' performances.

b. Another explanation commonly encountered is that donations are a private subsidy that makes it possible to keep ticket prices at low level so that they can be purchased by people who otherwise could not afford them. Yet the vast majority of people attending the performing arts are quite well off. Surely, it is doubtful that the performing arts are organized on a nonprofit basis primarily to provide a way for the rich to subsidize the merely prosperous.

The situation seems rather paradoxical. We have a service, which is basically private in character, financed partly by donations and partly by revenue from ticket sales. Organizations

such as orchestras and resident theatres do not produce primarily collective goods: the vast majority of benefits comes from the purchasers of tickets. Yet the people who donate are also the people attending the performances. Moreover, ticket prices do not seem to reflect costs. Hansmann explains the dependence of nonprofit performing arts organizations on donations as a form of voluntary price discrimination according to which some consumers agree to pay more than others for the same service.

Hansmann attributes this arrangement to the price structure of performing arts production. The considerable costs of organizing, directing, rehearsing and providing scenery and costumes for a performing arts production are basically fixed costs, unrelated to the size of the audience size. These costs represent a high percentage of the total costs of any presentation; the marginal costs of providing an extra performance or of accommodating an additional consumer are relatively low. Consumer costs must be high enough to cover the total costs of production but low enough to realistically reflect the marginal cost of an additional performance or an extra member of the audience. As demand for the arts is limited, however, quantity cannot be increased up to the point where fixed costs are covered. In economic terms, the demand curve lies below the cost curve at any given price.

So, to survive, the performing arts organization must set prices to extract from each consumer the value the performance holds for

him or her. Selling different quality seats at different prices is one means to accomplish this, but there is a limit to the degree of differentiation in seat qualities and the strategy only works to the extent that people who value more highly also set an unusually high value on good seats. Consequently, orchestras and theatre companies ask for voluntary donations as a means of discriminating with respect to price.

Hansmann's analysis also helps to explain why through the years nonprofit organizations have become increasingly prominent in the performing arts. Because productivity in live performances has not grown at the same pace as in the overall economy, the costs of performing arts productions has increased disproportionately to those of most other goods (Baumol 1966). From historical evidence it appears that fixed costs have consistently risen at a faster rate than variable costs have, and have thus started to represent an increasingly large share of the total costs. These developments have presumably given nonprofit organizations, having access to the means of price discrimination, an increasing advantage over their profit-seeking counterparts which are dependent upon ticket sales alone to cover both fixed and variable costs.

Summarizing, the live performing arts are commonly characterized by fixed costs that are high relative to marginal costs, and by a relatively low overall demand. As a consequence, performing arts groups often must engage in price discrimination if they wish to

survive without subsidy. However, the opportunities for effective discrimination through ticket pricing are limited. Therefore nonprofit firms, which in fact can make use of a system of voluntary price discrimination, can often survive in areas of the performing arts where profit-seeking firms cannot.

Hansmann's explanation of the prevalence of nonprofit organizations in the high-culture performing arts is a persuasive one. He however takes for granted a conventional definition of the performing arts firm, as combining performance and sponsorship within a single organization.

- Weisbrod public goods'theory

Why are some non-commercial cultural organizations voluntary non-profit while others are public agencies? We have no theories on the relative prevalence of public and nonprofit culture producers and distributors among non-commercial culture producers and distributors. The more general framework of Weisbrod's theory can be extended to the arts (Weisbrod 1977 and 1988).

According to Weisbrod, non-commercial organizations exist to provide "collective consumption goods". In line with the public choice tradition, according to which the political system is assumed to translate voter/consumer preferences into public policy, public enterprise arises when voters agree about the desirability of a collective good and the amount to be provided.

Under these circumstances the ability of government to tax (and thus circumvent the free-rider problem) makes it the most logical provider.

However, demand for collective goods often varies strongly from person to person. When this occurs, the government provides a level of the collective good equal to that demanded by the average voter. Citizens who prefer a higher level of provision may set up a private voluntary organization to supplement the government's production. Voluntary organizations are then seen as extragovernmental providers of collective consumption goods. They will supplement the public provision and provide an alternative to the private sector provision.

Weisbrod anticipates that nonprofit organizations will be the first providers, followed by government, of any given collective good, which will grow until consumers become wealthy enough to replace collective goods with privately consumable substitutes (ship radar instead of lighthouses, air filters instead of clean air).

When applied to some specific cultural fields (libraries, museums) Weisbrod's arguments provide some explanatory leverage (in the USA: private nonprofit museums in the late 19th century, public museums in the early twentieth and the arts market, a recent private substitute). The theory is also consistent with the growth of public subsidy to nonprofit organizations as public demand for the arts has increased.

Still, there is much more that the Weisbrod approach does not explain. The performing arts are mostly consumed privately by the same people who donate to the organizations of which tickets they purchase. This economic model cannot explain why nonprofit orchestras, theatres, and dance companies exist. Weisbrod even stated that the larger the private goods component in a "mixed good", the greater the tendency of profit-seeking organization to supplement governmental provision. In short, refined empirical research is required to verify the ability of the collective goods theory to explain the specific characteristics of organizational structures in the cultural field.

Conclusion

The economic approaches tend to explain the relative prevalence of different organizational forms in the production and distribution of culture. The Hansmann and Baumol approaches explain the preponderance of nonprofit enterprise in the production and the distribution of art forms that are labour-intensive; and to the extent that labour-intensiveness is especially characteristic of the high arts, they help to explain the importance of nonprofit firms in these fields. The Weisbrod theory explains the relative dominance of public enterprise in the provision of services that have large collective consumption components. All approaches need further empirical evidence from case studies.

III.B. Economic approaches to behavioural differences.

1. Economists have quite successfully modelled the behaviour of proprietary firms by assuming that owners and their agents seek to maximize profits and have sufficient information on and control over other participants for the firm to behave in a profit-maximizing manner. Therefore, it has been natural for economic models of nonprofit firms, including cultural organizations, to start by making certain assumptions about the goals, or objective functions, of these organizations and to adapt conventional models of firms to so as to predict their behaviour (Hendon & others 1980, Hendon & Shanahan 1983).

Presumably profit maximization is excluded as an objective for any legitimate nonprofit organization; consequently, the organization must select other goals. This choice of goals may lie with one or several individuals or groups, including performers, directors, producers, professional managers, and donors.

Nearly all economic models have stated that nonprofit cultural organizations try to maximize two goals, i.e. artistic quality and the size of the audience (Baumol and Bowen 1966; Hansmann 1981; Montias 1983; Throsby and Withers 1979). The models then attempt to predict the behaviour of nonprofit firms by analyzing how a joint quality and audience maximizer would behave under the constraints to which cultural organizations are subject; or they

consider the welfare consequences of pursuing different objectives consistent with nonprofit status.

A central point of such models has been the trade-off between quality and quantity. In general, economists agree that the quality-maximizing culture producer will have smaller audiences or fewer performances than either the audience-maximizing nonprofit or the proprietary profit maximizer, and that the audience-maximizing arts nonprofit will have lower ticket prices and more performances than either the quality maximizer or the profit-seeking cultural firm. Still, some cultural economists are very sceptical about such a positivist approach because of its abstraction from the cultural setting in which such organizations operate. A number of them (DiMaggio 1987; Hansmann 1981; Frey and Pommerehne 1980) have suggested a variety of additional objectives likely to influence the behaviour of nonprofit cultural organizations.

2. Variety of objectives

Because of the centrality of objectives to economic models, it may be useful to briefly consider the main goals of nonprofit arts organizations, confronting the economists' assumptions about these goals with evidence from case studies.

a. Quality

Economists have distinguished between two kinds of artistic quality, i.e. innovation and production values (i.e. "virtuoso"

performance, high-quality stage settings etc.). Nonprofit cultural organizations will attempt to maximize quality in one or both types of quality. Concerning the quality objective there are also differences among organizationally employed artists, often depending on the size of the organizations. In fact, arts organizations vary both in the objectives of their boards, managers and artistic directors and in the power each of these has in relation to the others. If we consider boards of trustees as the ultimate decision-making authorities in the nonprofit field, the goals of the trustees are the dominant factors in establishing the objective function.

b. Size of the audience

With few exceptions, most economists have assumed that nonprofit arts providers prefer large audiences not simply for fiscal reasons but as ends in themselves, and that consequently they set ticket prices lower and provide more performances than would an optimizing proprietary firm would. A number of economists also assume that arts organizations seek a broad and socially heterogeneous audience.

In fact, little evidence supports this view, and considerable evidence suggests that most decision-makers in nonprofit arts organizations have a more complex and often ambivalent attitude toward their audiences. This ambivalence is most marked among trustees, the policy-makers for the nonprofit firm.

c. Survival and legitimacy

Economists have assumed that the nonprofit arts firm attempts to survive; still they paid little attention to the complex non-market determinants of survival in a grants economy, especially the importance of organizational legitimacy. By contrast, case studies on nonprofit arts organizations stress the efforts of their managers to establish the organizations as legitimate institutions within the local cultural community.

3. Stability of objective functions

There is also some evidence that the objective functions of individual arts organizations are not always stable. They may even change in the course of the life cycle of the nonprofit cultural organization. In the short run, arts managers, like managers of other organizations, switch their attention from goal to goal as various problems arise. Moreover, large arts organizations avoid explicit trade-offs between objectives by conferring responsibility for different goals on different subunits.

In museums, for example, directors may seek to maximize the museum's adherence to standards promoted by the museum profession, curators may do the same with respect to the historical value of exhibits, membership staff with respect to the number of popular exhibitions, and the educators with respect to the museum's commitment to public service.

4. Ambiguity of objective functions

The objectives of nonprofit cultural organization are likely to be ambiguous as well as varied. It is questionable as to what extent major decisions by such organizations are best described as goal-directed. Moreover, official goals are so abstract as to admit to any number of interpretations. Indeed, the ambiguity of goals permits participants with widely differing interpretations to coexist peacefully in the same organizations.

Case studies of nonprofit cultural organizations put forward four major factors influencing the objectives such organizations pursue:

1. Size and market orientation:

Large organizations tend to be averse to risks: they have high fixed costs, with regard to both in salaries and maintenance of actual plant. Organizations that depend on high levels of earned income are similarly averse to risks.

2. Class versus public sponsorship:

The level of education and diversity of audience as goals are likely to vary according to the extent to which the governance of an arts organization is dominated by members of cohesive local upper classes and the extent to which the organization depends upon the public sector for sponsorship, legitimacy or financial support.

3. Roles and relative influence of artistic staff and trustees:

I have already mentioned the tendency of different goals to be conferred on specialized subunits of cultural organizations. Perhaps the most important distinction is the one between cultural organizations dominated by their artistic staff and those which are influenced most by trustees. Artistic directors and staff are most likely to emphasize quality objectives, whereas trustees tend to focus upon legitimacy and survival.

Conclusion

The difference between nonprofit cultural organizations and their proprietary counterparts does not lie in the "typical" objectives of the former but in the tendency of nonprofit objective functions to be more heterogeneous and more ambiguous than those of the profit-maximizing firm.

The implications of the behavioural differences between non profit and profit-seeking organizations for future research can be summarized as follows:

- Attempts to develop a single best objective-function-based model of the behaviour of nonprofit performing arts organizations are not fruitful;
- Nonprofit cultural organizations have a larger heterogeneity of goals;

- Nonprofit cultural organizations also display a larger ambiguity with obvious consequences for the internal political systems and decision-making processes;
- Little theory and few data analyses relevant to the question of the differences between nonprofit and public cultural organizations exist;
- The most important differences between nonprofit and proprietary enterprises may be at the industry level.
- The cultural context in which nonprofit cultural organizations operate is a dominant factor in analyzing their behaviour.

IV. An Agenda for Research

I would like to end my presentation by indicating a few research possibilities in the study on the nonprofit organization in the production and distribution of culture. Further research needs to be undertaken at the conceptual level in order to qualify the economic theories of nonprofit organization in their application to the cultural sector. A critical assessment may probably add explanatory power to the prevalence of nonprofit organizations in the cultural sector.

An interesting conceptual dimension which may be added to this direction of research is the segmentation of specific cultural industries between profit-seeking and nonprofit sectors. It may be that the more fundamental differences between nonprofit and profit-seeking cultural organizations lie in differences between

industries which are predominantly profit-seeking and industries which are predominantly nonprofit:

- Firms in nonprofit industries buy the artist's time, whereas those in profit-seeking industries purchase the artist's products;
- Firms in nonprofit cultural industries are characterized by ambiguous success criteria, whereas profit-seeking culture producers rely on market criteria for evaluation of success;
- In nonprofit cultural industries, the lack of market criteria of success, the importance of aesthetic ideologies, and the significant role of class and status in governance tend to create a situation conducive to the maintenance of small markets for specialized genres.

Empirical research in this field should focus on the behavioural differences between profit and nonprofit organizations, mainly in relation to the variety and ambiguity of objectives taking into account the specific cultural context. Case studies should be undertaken of some specific nonprofit cultural organizations in order to add empirical evidence to the theoretical approaches or to qualify their conclusions. They should analyze factors that influence the objectives of nonprofit cultural organizations (such as size, financing, influence of artistic staff and trustees, market dependence etc.) in relation to their output.

In this context of conceptual and empirical research possibilities, the study on foundations, i.e. nonprofit cultural organizations which are important in the production, distribution and promotion of culture, could be very challenging. In view of the changing patterns of financing culture (i.e. increased sponsorship and uncertain growth prospects of public support) and of the consequences of the realization of the internal market (i.e. fiscal harmonization) on the cultural sector in the different countries of the European Community, conceptual research (i.e. are foundations private producers of collective consumption goods?) as well as empirical research (i.e. the study of specific cultural foundations in reference to their role and behaviour) could be undertaken.

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The Role of Non-Governmental
Organizations in European
Development Aid

Manfred Glagow

1. Market failures and similar shortcomings of the State in solving given social problems draw the political and theoretical attention to something else beyond markets and the State. It is the capacity of this "third sector" in fulfilling societal demands which cannot be adequately satisfied by markets and/or State, which is of most interest in this context.

The discussion on this "third sector" is quite an international one and covers nearly all areas of policy ranging from education, health and welfare to culture policy and also development aid. This indicates that the search for alternative or complementary forms of societal guidance beyond markets and the State goes back to similar problems in many countries of the world, at least in the advanced western countries, in that, this issue is not typical only for one special policy field, but also can be generalized in this sense.

This trend of shifting interests towards non-statistic and non-market strategies of intervention is also obvious in the policy field of development aid. Here, the heavy criticism of state-run development aid and the nonfunctioning of the market in the so-called Third World

focussed interest almost exclusively on self-help groups and especially non-governmental organizations and their work, in respect of the given prospects but also constraints. Thus the World Bank and also many western donor countries set up special NGO-programs or increased substantially already established programs in favour of NGO-work (Cernea 1988, Claus 1989). Also, in the last few years, the European Community has institutionalized its cooperation with the countries of the Third World in programs executed by NGOs. This raises the question of the role of the NGOs in European development aid.

In trying to answer this question, we would like to clarify first, what is so special about NGOs. There then follows a descriptive survey of EC-NGO cooperation and the work done by the NGOs. In the subsequent section, we examine the reasons for this cooperation and finally, we make certain observations which still need to be evaluated empirically.

2. It is not easy to define NGOs. The term "nongovernmental" draws attention to the juridical difference between, on the one hand, governmental organizations in the form of state

administrations, ministries etc., and on the other, foundations, firms and corporations having a legally private form. Yet the term is not very satisfactory for describing what is meant. First of all, there are more and more state agencies to be found in legally private forms, such as limited liability companies, for instance. So the legal distinction does not capture a clearcut difference between government and non-government. We remember, for instance, the literature on so-called quasi non-governmental organizations (QUANGOS) (Schuppert 1981), which discusses this phenomenon of widespread private forms of state-run administrations with the example of Great Britain. Secondly, the term NGOs makes merely a negative distinction between them and governmental organizations and therefore provides a not even satisfactory answer to what NGOs are not, rather than an answer to what they are.

The term non-profit organization as an alternative to nongovernmental organization, points more to the economic identity of the organizations which are discussed here. It also runs into similar problems. We learn from Hansmann (1980) that non-profit organizations exist which make a profit without losing their iden-

tity as nonprofit organizations. So again, in a strict sense, the term is misleading, and again, only negatively identifies what it is intended to identify.

So, we know by now, that NGOs or non-profit organizations are neither State nor market organizations; but what are they, what is their positive identity? In trying to answer this question, we would suggest using social criteria rather than legal or economic ones. In this sense, it is of importance that NGOs are connected with society in a special way, and that constitutes the main difference between these organizations and state and/or market organizations. Whereas state organizations are connected with society through hierarchy, rooted in legitimated power, and market organizations are connected with society through exchange, rooted in equivalence of money and goods, NGOs are connected with society through solidarity, rooted in voluntary action. So, one can say, NGOs are solidar systems inbedded in society through solidarity.

This solidarity manifests itself in two ways. In the first place, NGOs gain their resources from society in the form of money contribu-

tions, non-paid voluntary work, and high motivation. These contributions are obtained without using force, and without the promise of profitable exchange. In the second place, NGOs transfer these resources back to society in the form of donations, institutional help, or concrete development aid projects. In the fields of education and health, for example, the transfer is normally between one segment of a national society and another, whilst in development aid, the transfer is normally directed from one national society to another.

Describing NGOs as solidar systems does not mean that their internal organization is necessarily structured through solidarity. Organizations, always formally institutionalized, are grounded on hierarchy and so also are NGOs in their internal reality. Solidarity describes the connections of these organizations to society, and not their existence as organizations, even though aspects of non-formalized behavior and working styles draw on solidarity as an attitude.

NGOs are not NGOs. Even though they are all solidar systems, their standing and performance varies greatly. Leaving other forms such as

quasi-non-governmental organizations or quasi-non-profit organizations aside, NGOs vary in terms of their programs, size, organizational structure, memberships, etc.. Taking account of these enormous differences, an endless typology of NGOs could emerge. Instead, we would again suggest looking more closely at the ways in which NGOs are connected with society. Here we can differentiate NGOs which are directly or indirectly coupled with society, or better with different segments of society.

It is quite obvious, that by origin, the most important NGOs are closely connected to, or even form part of, established associations, such as churches, christian or non-christian charitable institutions, professional federations, and even - as in Germany - political parties. NGOs are in that case, bound indirectly to society via their home organization. They have to legitimate their work first to them. This might weaken the scope of action of this type of NGO, but it also means that they can rely on strong allies inside of society. We should not forget, that these home organizations are well-established in the pluralistic decision-making structure of various countries and this means that a connected NGO can rely on

this stronghold. The home organization might guarantee a steady access to donors, might back the NGO in political conflicts, and might even give monetary or professional help. Certainly, the price to be paid by the NGO is conformity with the demands of loyalty to its "big brother".

Other NGOs owe their origins either to initiatives of individual people of rank and notability, or else have emerged from social movements. They have this in common, that there is no established organization standing behind them which they can use as an infrastructure or pressure group. These NGOs are connected with society directly and the overall important question for them, is, how to bind a reliable clientel in the society on a long term basis. Because there is no expectation on conformity by home organizations, these NGOs seem to have much freedom of action. But on the other hand, they have to take into consideration the segment of society they rely on, from which they get money, manpower and other resources. In many ways, their existence is even more vulnerable since they are dependent on their ability to attract a clientel day-to-day. A continuous mobilization of donors and voluntary actors is

a necessity for these NGOs. In the case of success, they can rely on highly motivated and energetic assistance, of which state- or market organizations, or even NGOs connected with established organizations would be proud. In the case of failure, the question of survival arises. So permanent campaigning is not only typical of these NGOs, but also a burden with risky results.

3. In 1976, cooperation between the European Community (EEC) and NGOs from individual countries of the Community was established. The initiative came from the Straßburg Parliament and from the EC-administration in contact with a few NGOs. The first NGO program put forward by the commissioner in charge of development, Mr. Cheysson, took this initiative to his own, and put forward an NGO-program first without a juridical basis, and the administration worked for two years without one. In contrast, the representatives of the national states were against such a program and refused to recognise it. The European Parliament instead, backed these programs and gave budget money. One has to remember, that the European Parliament is not a normal parliament in the sense of having full budgetary powers. The more powerful actors

are still the national bureaucracies and the political representatives of the national states. So, in this case, the stronger actor gave in after two years, and since then, the NGO-program has been well established. In financial terms, EC cooperation with the NGOs amounts to about 10% of the entire sum which the EC spends on development aid, including the IDF-fund, which is not part of the budget. There are four main programs which are financed: cofinancing development projects in developing countries with NGOs, food-aid, emergency-aid, and development education projects. Besides this, there are special "lines", for instance for Chile, a special line for refugees, another one for drugs, one for South Africa and another one for Palestine.

BREAKDOWN BY MEMBER STATE OF COMMUNITY FUNDS ALLOCATED IN 1987

Member States	Development projects in developing countries		Projects to raise public awareness in the Community		TOTAL	
	Number of projects	EC-contribution in ECU	Number of projects	EC-contribution in ECU	Number of projects	EC-contribution in ECU
BELGIUM	77	9.958.515	11	865.487	88	10.824.002
DENMARK	14	2.686.920	5	374.478	19	3.061.398
SPAIN	23	2.657.179	2	259.053	25	2.916.232
FED.REP.OF GERMANY	57	9.479.137	12	733.089	69	10.212.226
FRANCE	66	8.499.467	15	735.348	81	9.234.815
GREECE	-	-	-	-	-	-
IRELAND	16	1.012.214	4	126.528	20	1.138.742
ITALY	46	6.864.098	10	833.571	56	7.697.669
LUXEMBOURG	16	786.416	-	-	16	786.416
NETHERLANDS	31	3.994.963	11	608.118	42	4.603.081
PORTUGAL	3	380.676	-	-	3	388.676
UNITED KINGDOM	74	10.280.056	17	1.202.576	91	11.482.632
TOTAL	423	56.607.641	87	5.738.248	510	62.345.889 (*)

(*) The contribution to the budget of the Liaison Committee of 472.550 ECUs should be added to this figure

Source: Commission Report to the Council

on cooperation with European non-governmental organizations (NGOs) active in the development field, with special reference to the cofinancing of projects (1987 budget), Brussels, 1988.

BREAKDOWN BY MEMBER STATE OF COMMUNITY FUNDS ALLOCATED FROM 1976 TO 1987 INCLUSIVE

Member States	Development projects in developing countries			Projects to raise public awareness in the Community			Total		
	Number of NGOs	Number of projects	EC-contribution in ECU	Number of NGOs	Number of projects	EC-contribution in ECU	Number of NGOs	Number of projects	EC-contribution in ECU
Belgium	54	471	47.655.785	30	47	2.302.594	74	518	49.958.379
Denmark	20	66	9.030.916	11	16	667.045	27	82	9.697.961
Spain	8	26	2.970.792	6	8	575.396	12	34	3.546.168
Fed.rep.of Germany	49	363	46.931.820	21	44	1.958.444	60	407	48.890.264
France	86	453	44.901.067	34	97	3.825.979	113	550	48.727.046
Greece	-	-	-	-	-	-	-	-	-
Ireland	8	188	8.655.626	5	13	594.721	11	201	9.250.347
Italy	53	286	36.559.809	22	42	2.049.899	64	328	38.609.708
Luxembourg	11	60	3.572.497	1	1	12.517	11	61	3.585.014
Netherlands	13	197	20.980.150	21	56	2.903.900	30	253	23.884.050
Portugal	2	4	696.917	2	2	159.840	3	6	856.757
United Kingdom	61	515	49.045.349	41	119	6.192.276	88	634	55.237.625
Total	365	2.629	271.000.728	194	445	21.242.611	493 (*)	3.074	292.243.339

(*) These NGOs are active in the field of development and/or in the field of raising public awareness in Europe.

Source: Commission Report to the Council

on cooperation with European non-governmental organizations (NGOs) active in the development field, with special reference to the cofinancing of projects (1987 budget), Brussels, 1988.

In 1987, more than 62 Million ECU were given for cofinancing development projects. This sum includes an amount of nearly 6 Million ECU for development education. Food-aid amounted to more than 109 Million ECU, while emergency-aid accounted for slightly over 19 Million ECU. About 500 projects were financed with this amount of money. (An ECU is equivalent to 2.14 Deutsche Marks or 0.67 pounds sterling.)

In 1976, 2.5 Million ECU were made available for the whole cofinancing-program with NGOs. In 1978, the figure was raised to 12 Million, in 1980 to 14 Million, in 1982 to nearly 29 Million, to 35 Million in 1984, 45 Million in 1986 and more than 62 Million ECU in 1987. Food-aid during the same period rose from 9.3 Million ECU to 109 Million ECU. So food-aid is still the largest block, but the cofinancing program has grown relatively faster than food-aid. So, between 1976 and 1987 the EC contributed 271 Million ECU for development projects and more than 21 Million for development education. All in all, this amounts to 292 Million ECU over this period of twelve years. More than 3.000 projects were financed with this sum in the

same period. The average contribution of the EC to a cofinanced development aid-project of an NGO was 134.000 ECU in 1987.

Average contribution of EC to NGOs in cofinanced projects without blockgrants

year	average size
79	46.000
80	81.000
81	75.000
82	103.107
83	111.000
84	115.000
85	123.000
86	137.000
87	134.000

Source: Commission Reports on cooperation with European non-governmental organizations (NGOs) active in the development field, with special reference to the cofinancing of projects 1979 - 1987

Most projects were carried out by NGOs from the United Kingdom (634), followed by NGOs from France (550), and Belgium (518). In terms of ECU, NGOs from the United Kingdom occupy first place, followed by those from Belgium, Germany and France. More than 40% of the cofinanced projects are situated in Africa, south of the Sahara (1987), 32% in Latin America, followed by Asia with 18%. In 1981, sub-Saharan Africa received 53%, followed by Latin America with 23.5% and Asia (16.5%). Asia overtook Latin America only once (in 1982).

In the twelve years between 1976 and 1987, the EC-development administration worked together in projects of cofinancing and development education with 493 European NGOs. 757 NGOs are in contact with the EC-administration and about 500 NGOs are represented by the Liaison Committee (partners for development, p. 8). France has the largest number of NGOs who work together with the EC, followed by the United Kingdom and Belgium.

Regional Allocation of Funds in NGO-EC cofinanced Projects (in %)

Year	Africa south of Sahara	Latin America	Asia	Mediterranean	Pacific
1979	49	28	23		
1980	52	27	16		
1981	53	23.5	16.5	7.5	1
1982	46	15	28	10	
1983	43	27	19	11	
1984	45	28	22	5	
1985	44	33	20	2.5	0.5
1986	41.5	33.5	20	4.5	1
1987	43	32	18	5.5	1.5

Source: Commission Report on cooperation with European non-governmental organizations (NGOs) active in the development field, with special reference to the co-financing of projects 1979 - 1987

Number of NGOs in Contact and in Cooperation
with the Directorate General for Development

Member State	NGOs in Contact	NGOs in Cooperation
Belgium	96	69
Denmark	42	26
Spain	29	14
Fed. Rep. of		
Germany	89	62
France	162	111
Greece	13	-
Ireland	21	10
Italy	94	59
Luxembourg	29	11
Netherlands	47	29
Portugal	19	4
United Kingdom	116	86
Total	757	481

Source: Indicative List of Non-Governmental Organizations in Contact with the Directorate General for Development, Brussels, Sept. 1988 (VIII/1206/86)

The figures of between 500 and 750 NGOs working together with the EC or being in contact, are not by any means representative of the number of existing European NGOs. There are some organizations in the EC lists which cannot really be treated as NGOs, and other well-known ones are missing. For the ones missing, it does not seem to be attractive to apply for a cofinanced project by the EC. This is the case, for instance, with German church-run NGOs, for there are better conditions for financing in Germany while in the Netherlands, for instance, EC co-operation procedures are seen as complicated and bureaucratic in comparison to the possibilities of financing by the Dutch government.

European NGOs obtain money not only through the EC and the national states, but also have their own exclusive resources; they have access to donors in society. The contributions by donors in Germany for instance, are estimated at 2-3 Billion DM per annum, of which 1 Billion is given in favour of development-aid and similar charities (Hornschild 1982). NGOs there, have, so to speak, their own "income" and are in general, not dependent on financing or cofinancing by their national states or by the EC.

Nevertheless, cofinancing is an important resource for many NGOs and as such, not one to be neglected.

The rules governing cofinancing by the EC are quite clear. An NGO which wants to apply for cofinancing must be known by the EC-administration and positively judged in terms of personal commitment, independence, and experience. The NGO must present its statutes and complete accounts for the previous three years. The EC will want to know the sources of the NGO's income and how the latter has been spent in the past. They will also want to know about the experience of the applying NGO. If the NGO is of recent origin, the EC will not hesitate to ask the "NGO world" about the newcomer. The NGO normally enters a cofinancing agreement with a commitment of 50%, although this can be as little as 25%. Joint ventures with the financing of national states, for example, is possible. Situated in Brussels, the Liaison Committee plays an important role in cooperation between the EC and NGOs, for it is a sort of institutionalized spokesman for the European NGOs.

Cooperation between the European Community and NGOs (in Mil. ECU) in the fields of: Cofinancing Development projects, cofinancing projects to raise public awareness, food aid, emergency aid and refugee aid.

Year	Cofin. Public Projects Awaren.	Cofin. total	Food Aid	Emerg. Aid	Refug. Aid	NGO-Coop. total
76	2,5	2,5	9,3			11,8
77	4,0	4,0				
78	12,0	12,0				
79	12,2	12,2				
80	14,0	14,0				
81	13,4	14,0				
82	26,8	28,9	45	39,6		
83	29,0	31,2	52	13		
84	32,1	35,0				
85	38,9	42,4	58,6	46	1,6	148,6
86	40,5	45,0	72,0	15	1,7	133,7
87	57,1	62,8	109,4	19	1,7	197,6.*

* in 1987 4 Mil. ECU were spent through NGOs on Aid, e.g. to Chile

Source: Commission of the European Communities, Commission Report on cooperation with European non-governmental organizations (NGOs) active in the development field, with special reference to the cofinancing of projects 1979 - 1987

4. Why does the EC cooperate with NGOs? There are quite a few reasons. Some of them are, in the view of EC administrators, as follows:

- NGOs are autonomous. They do not take advice from governments in Europe or from governments of the developing countries. They are answerable only to their own social bases, to their own clientel.
- NGOs are based on the personal commitments of people. It is not like working together with an administration. People from NGOs have a very personal interest in the projects they are doing.
- Because NGOs are normally small, they are very agile: they can adapt themselves to changing situations in the countries they work in, whether in Europe or in the developing countries. In particular, they can adapt their projects to changing situations in the developing countries and do not always have to convince a meeting of member states as in the case with other community projects. So a good NGO is always flexible and works rapidly.

- Although some NGOs might become so in the future because they are growing, until now NGOs have not been as bureaucratic as public administrations.
- NGOs can be more experimental in their work than other organizations.

In other words, NGOs have comparative advantages, at least over state-organizations, in staff, efficiency, and effectiveness.

But there are also political reasons which facilitate collaboration between the EC and NGOs. Mr. Cheyssson put it this way:

- "NGOs are not bound by geographical limits of action imposed on the community: I shall mention two territories: Namibia and the territories occupied by Israel. Here are two territories situated in the middle of zones in which we can systematically bring aid to populations, but in which we are kept from action for obvious political reasons since we do not recognize the right of the governing power in either country." (European NGOs and Development, 1986)

NGOs are certainly not suited to all kinds of projects. In the view of the EC, they are only one instrument amongst others, particularly adapted to grass-roots interventions. In the countryside, in the field of rural development, in health, social security and training NGOs are strong, especially in the first three or four sectors. As a staff member of the EC in Brussels put it, it is very difficult for other organizations to make people go into the bush, 600 kms away from the capital and stay there for two years to work with the farmers. Only the NGO has the capacity to go and work at this grass-root level. "This is what beats everything in their capacity to do projects".

So far, we have mentioned some of the arguments openly discussed in favour of cooperation between the EC and NGOs. But there are also important hidden reasons which have nothing to do with development aid, nor with the particular case of the NGO. Organizations tend to control their environment in order to defend the given status quo or even to gain opportunities to expand. To organize an almost symbiotic coalition with a given clientel is one of the strategies of an organization and if an insti-

tutionalized clientel does not already exist, the organization will organize some sort of "institutionbuilding" in order to get its own clientel.

These general remarks describe very well the situation presented by cooperation between the EC and NGOs. The EC administration in general and the department in charge of development aid in particular are by comparison with the national bureaucracies in Western Europe and their specialized agencies for development aid, politically weak. This is also true of the European Parliament. So it is quite "natural" that these organizations try to use every method and occasion possible to strengthen their position. The offer to cooperate with the European NGOs should also be seen in this light. NGOs have built up a good standing with the European public, and have a growing reputation. The popularity of the NGOs makes them suitable for an alliance, and weakens resistance by the national bureaucracies and politicians to such cooperation. So the strategic hope of strengthening the institution of the EC is historically and systematically of importance, if one wants to explain the close collaboration between the EC and European NGOs. Whether, as a side-ef-

fect, development aid as an issue will be strengthened is a separate and still open question.

5. Lester M. Salamon speaks of four "voluntary failures", when judging the voluntary sector in general: "first, philanthropic insufficiency; second, philanthropic particularism; third, philanthropic paternalism; and fourth, philanthropic amateurism" (Salamon 1987:39).

- One of the insufficiencies "results from the twists and turns of economic fortune" (Salamon 1987:40). This instability can lead to ups and downs in the availability of resources, and this can even endanger the issue of development aid as such.
- By philanthropic particularism is meant the danger of too close a connection between a voluntary organization and its clientel, with the result that a given objective is not the yardstick for action, but the conformity of values and thinking between the acting organization and its clientel.

- Philanthropic paternalism stresses the systematic inequality between an organization giving aid, and the receiver of that help.
- Philanthropic amateurism at least considers the weak points of an organization that is not professionalized. Good will is one thing, to carry out a project well is another.

The NGOs seem to be aware of these dangers for their work. Many of them have made a great deal of effort to control or even counter these negative phenomena. Nevertheless, some of these constraints are of a systematic character and not easily overruled by changes in will, consciousness or personal habit.

Among the potential problems Salamon has identified, fluctuations in the availability of resources has not so far been an actual problem, at least not in West Germany. There is quite a steady flow of donations to the NGOs, and certainly the current economic situation does not necessarily lend support to Salamon's proposition.

Particularism is, at least for the very small NGO, a real danger. Organizational weaknesses, shortages of labour and of reliable partners in the developing countries can bind these NGOs to a small clientel which is already known and established. The bigger organizations can avoid these shortcomings better, but even here one has to be reminded that one of the fundamentals of NGO-work is the conformity of values and goals between donors, the NGO, and its recipients. So this conformity always includes some sort of particularism.

Paternalism is one thing nearly every NGO wants to avoid, but it always exists to some extent simply because of the inequality between one who has access to resources and one who wants to gain such access. Here many of the NGOs have done something to strengthen the position of their partners in the developing countries at least by acting as an advocate for them here in Europe and in giving them their own access to resources. Therefore, a new topic of discussion is the fact that the so called South-NGOs are cofinanced directly by governments, for instance by the Canadian government, without a North-NGO in between (Schaffer 1989). European NGOs have in the past also built up networks

including the NGOs of the developing countries, in order to strengthen their independent position against their own governments, but also against paternalism of the North-NGO (Dreesmann 1989).

Whether there is professionalism depends on whether the given project needs it. If a project is rooted in expert knowledge, one needs highly trained people who can work effectively. However, NGOs normally do not see themselves as experts but rather claim the role of a catalyst. So an expert is not asked for, but somebody who is able to support self-help. Therefore, it is not classical professionalism which is wanted or needed but social expertise. Here all NGOs may have problems in finding adequate man- or woman-power, but on the other hand, this is even more of a problem for state- or market-organizations in the field.

Insufficiency in the more specific sense of inefficiency and ineffectiveness is the key question in an evaluation of NGO projects cofinanced by the EC (Crombrugghe et al. 1985). Even though "there are wide variations in the capabilities of both Third World and European NGOs" (Crombrugghe et al. 1985:vi), there seems

to be a general problem for NGOs in planning their projects and in monitoring and evaluation. NGOs tend not to put much effort into these pre- or after-steps of their project activities. Here again, this is not due only to bad will but to the nature of NGOs. They have small apparatuses and the main element of their legitimation both before the public and their clientel is, that they transfer as much of their gained resources into the project as they can and use as little as possible for their own organization and costs. This leads to the trap that by reducing funding for their own infrastructure NGOs produce unwanted shortcomings in their efficiency.

These few examples might suggest, that NGOs have their own organizational logic. The latter not only gives rise to comparative advantages over state-run and market-run organizations but also brings about certain constraints. One should keep this in mind when the capabilities of NGOs in development aid are under discussion.

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LOCAL ECONOMIC PARTNERSHIPS IN THE UK:
BEYOND COLLECTIVISM BUT NOT QUITE MARKET?.

Jeremy Moon

INTRODUCTION

It is the intention of this paper to highlight a range of new organizations and policy processes which have emerged in the UK, initially as part of an overall, if fragmented, response to the onset of mass unemployment in the late 1970s and early 1980s¹. The focus will be upon what have been called Local Partnerships (the longer term used in the title of this paper is simply to clarify their broad purpose). It will be argued that the particular nature and roles of Local Partnerships warrant their inclusion in this burgeoning international category beyond State and Market: the Third Sector. Local Partnerships are essentially between representatives of local government and of local business organizations. Beyond this, there is no single formula of membership (other participants may include representatives of trade unions and local charities). Our research (e.g. in Moon and Richardson, 1985; and Moore et al, 1989) suggests that there is quite a lot of variety, as there is in the precise nature of activities undertaken. It is the growth of local unemployment - generally reflecting national and international trends - which has stimulated the emergence of Local Partnerships (LPs), but they have tended to broaden their activities to embrace a general concern with stimulating local economic development. Thus unemployment has been the catalyst and local economic development has emerged as the predominant response.

Whilst local perceptions of the national problem of unemployment have prompted local responses, this paper will also argue that the specific nature and role of LPs is crucially related to two apparently contradictory, but in practice currently co-existing policy trends. First there has been the spectacular growth of State direct responses to mass unemployment, beginning in the early 1970s and continuing under the Thatcher administration to the present. Secondly, associated particularly with the Thatcher government, there have been various policies designed to

encourage enterprise in general and at the local level, and a greater involvement of the business sector in unemployment and local economic development. Thus LPs do not only reflect local values and efforts, but also they have thrived on policy opportunities provided by State and Market oriented public policies and by new trends in the behaviour of business organizations, without being exclusively characteristic of any one of these.

The paper will commence with a brief survey of the characteristics of collectivism (arguably the dominant economic and social policy paradigm in post-war UK), and the place of employment and unemployment issues within this policy paradigm will be outlined. Secondly, the paper will present a brief survey of trends in direct national policy responses to the unemployment problem - the State factor. It will be argued that the implementation imperatives of these policies have led to the emergence of an Unemployment Industry, populated by a host of governmental, quasi-governmental, business, trade union, and charitable organizations operating at national, regional and local levels. This has to some extent have forshadowed and shaped the decentralized nature of LPs. Thirdly, the Market factor will be presented, consisting of an overt effort to encourage entrepreneurialism in the British economy at all levels; and of greater attention by the business sector to the unemployment and local economic development issues. The paper will proceed to outline the origins and nature of these Local Partnerships; their organization, their working scope and style, and their relationships with state and market actors. It will conclude by assessing their impacts on the problems of unemployment and local economic development, and by assessing broader political aspects of the findings. In addition some brief points will be made to assist in comparing LPs with other Third Sector organizations.

COLLECTIVISM AND UNEMPLOYMENT

It is always important when trying to argue that some new phenomenon has been emerging that we are not creating a strawman of the past. In the UK, charitable bodies between market and state have long existed in the social policy field, and we have been aware for some time of various complex and ambiguous interpenetrations of the private and public sectors. It is the contention of this paper, however, that the Local Partnerships represent a significant new Third Sector development. This is because they have emerged in the very area where the predominant post-war paradigm of UK political economy - Collectivism - would have been expected to prevail.

A number of overlapping images of Collectivism exist. That offered by Beer is among the best known:

Through an intricate system of bidding and bargaining, consumer and producer groups exercised major influence on public policy. At the same time, the ideological gap between the parties narrowed as Labour's retreat and the Conservatives' advance left the two parties occupying the common middle ground of the Welfare State and the Managed Economy. (Beer, 1966:386)

It is presumptions about the Welfare State and the Managed Economy that are together challenged by the character of the developments that I wish to present. It is no great secret that, rhetorically at least, these are also challenged by Prime Minister Margaret Thatcher. As we will see in the next section there have been some links between the policies of the Conservative Government since 1979 and the emergence of Local Partnerships. I might as well indicate now, however, that the reality of the Partnerships does not match the free market ideal as closely as some of Mrs Thatcher's keenest supporters and greatest enemies would have us believe.

We should now note a startling paradox. On the one hand this paper argues that local responses to the problem of unemployment are illustrative of the emergent Third Sector.

On the other hand unemployment during the 1930s, or at least the memory of it² was a key - if not the key - factor in the establishment of the policy components of Collectivism that Beer has pointed to i.e. the role of the State in the provision of Welfare, and its responsibility for ensuring the overall health of the economy³. Labour had found a policy set compatible with, if not wholly a reflection of, the values and goals of its own formative period. The pre-Thatcher Conservatives, without sacrificing either the public institutional arrangements or the protected position of capital to both of which they were broadly committed, moved to a position which accepted that mass unemployment could never be allowed to be repeated. It had become the established political wisdom that mass unemployment would spell electoral disaster for any British government. Interestingly, the electoral spoils of Collectivism were shared by the parties in the post-war period⁴.

Unemployment and beliefs about unemployment had come then to assume a pivotal position in the nature of Collectivism. The Managed Economy was designed to prevent its return on a mass level. The Welfare State was designed to protect the citizen from short term periods of unemployment, from the consequences of absence from employment through reasons of ill health or injury, and from adverse consequences of withdrawing from employment because of aging and retirement.

THE STATE AND MASS UNEMPLOYMENT: PUBLIC POLICY AND THE UNEMPLOYMENT INDUSTRY

As is now well known, in recent years the UK has suffered dramatically high levels of unemployment, rising to over 3 million (almost 14% of the workforce) in 1983⁵. The central institutional focus for public policy responses to UK mass unemployment since its formation by the Heath Conservative government of 1973, has been the Manpower Services Commission⁶ (MSC). This was a quintessentially Collectivist creation, verging almost on a Corporatist

institution. The then Secretary of State for Employment introduced the MSC to Parliament in the following terms;

...the government attach great importance to what has become known as the tripartite approach ... as is shown by the proposed membership ... I am not suggesting that they (the board members) are mandated or delegates who must refer back on every major point, but they must carry the confidence of the organizations which helped them to be appointed in carrying out their daily functions' (Hansard Vol.852 Col.1144-1145, 1973).

Thus responsibility for policy formation in this field was shared primarily with representatives from the trade unions and from business organizations, though also with representatives of local government, voluntary and educational organizations. As unemployment figures spiralled during the 1970s and early 1980s the size of MSC's responsibilities grew commensurately (see Moon, 1983). In terms of personnel it employed, its budget allocation, the number and size of its anti unemployment programmes, and the numbers of participants in these, the MSC's growth was spectacular. The very task of providing and operating employment subsidy, job creation, training and re-training programmes introduced a set of dependencies much wider and much more complex than envisaged in the limited membership of the MSC board. Here lay the seeds of a vital qualitative change; the emergence of the Unemployment Industry (see Moon and Richardson, 1984). Quite simply, in order to guarantee the implementation of the programme (training or short-term employment places for the unemployed), the MSC had to provide incentives and encouragement to organizations whose business it is to employ and train. Initially the local government and voluntary sectors were able to absorb the targetted unemployed people, but as the size of the task grew there was a need to encourage businesses to participate. Thus modest financial inducements came to be offered to sponsor organizations, and this not only brought with it greater business participation (other corporate responsibility motives also explain this - see next section), but also greater interest on the part of charitable organizations and the creation of special brokerage organizations acting as

inter-mediaries between the MSC and potential sponsor organizations at the local level⁷. There are even examples of government bodies actively encouraging the creation of charitable bodies expressly to spend public money on anti-unemployment programmes⁸.

An immensely complex but active network has thus emerged. It includes public, business, charity, and trade union bodies at the national, regional and local levels. These organizations are chiefly characterized by 'exchange relationships' (see Jordan and Richardson, 1982) involving the spending of public money on local means of ameliorating the national unemployment problem. There is a high level of interpenetration among these bodies (e.g. in terms of membership of governing bodies, and of short-term secondments from one to another), and somewhat blurred role differentiation. The MSC has been able to see its programmes being implemented at the grass roots level. The non governmental members of the Unemployment Industry possess information and skills appropriate for business of placing individuals in particular employment and training niches. Their rewards vary to some extent, but they all certainly earn some financial rewards⁹, and at the same time they all enjoy local and in some cases, professional recognition. Whereas unemployment is usually considered a problem for those who experience it, it has become an opportunity for many members of the Unemployment Industry. Policy responses to unemployment which owe their existence to State legitimation and funding have become characterized by multiple and decentralized dependencies on non governmental actors.

THE MARKET AND MASS UNEMPLOYMENT: THE BUSINESS SECTOR AND THE ENTREPRENEURIAL ETHOS

Business organizations are not necessarily entrepreneurial. It does so happen however, that the increased participation of the business sector in the MSC-oriented Unemployment Industry and its broader interest in local economic

development has coincided with the Thatcher government committed, rhetorically at least to the promotion of the entrepreneurial spirit.

Encouraged by the MSC the major umbrella organization of British business, the Confederation of British Industry (CBI), created the CBI Special Programmes Unit (CBI SPU) in 1980. This was designed to assist the MSC in finding work experience opportunities for the young unemployed under the Youth Opportunities Programme (YOP)¹⁰. It mainly consisted of about 50 secondees from companies who encouraged firms (at the local and national levels) to participate in YOP. CBI SPU subsequently claimed responsibility for large numbers of placings under this and other such schemes. The CBI SPU was also responsible for the instigation of one of the formative stages in the development of the LP movement, the Community Action Programmes (CAPs). These CAPs consisted of Town Studies in twenty or so areas of high unemployment, whose purpose was to identify gaps and opportunities for business creation and expansion. The Town Studies were usually followed up with the secondment of a businessman to the locality with the brief to actively encourage such business developments and employment creation. Just as important perhaps, was the CBI SPU's role in contributing to the marked increase in Corporate Responsibility among British firms.

The CBI SPU merged in 1984 with another organization, Business in the Community (BIC), which was formed in 1980, and whose main activity was the stimulation of Local Enterprise Trusts - another precursor of our more general category, Local Partnerships. These too were designed to galvanise local organizations into concerted action through the creation of employment in new businesses. BIC encouraged, advised, and supported (usually in the provision of secondments) the Trusts, which mainly consisted of local business people, local government officials, and other local prominent actors e.g. trade unionists, representatives of charitable bodies.

There has then been a notable increase in Corporate Responsibility, which has proved highly significant in the emergence of LPs. It is just worth our pausing to ask 'what has prompted this trend?'. We should also note that this trend is not confined to the issue areas that concern us, but also that the levels of commitment in the broad social responsibility fields vary enormously among firms. It is certainly no coincidence that the shift has occurred under a Conservative government, and ministers have certainly tried to encourage the business sector to become thus active. This alone is too simplistic an explanation, however. There has been other peer group pressure from such notables as the Prince of Wales and the Governor of the Bank of England, and there are rewards for company chairmen in the Honours List. Again this explanation hardly captures the momentum that has gathered. There is some evidence that the urban riots of 1981 acted as something of a spur to action; as the Economist observed (20.2.82) major retailing companies have come to recognise that 'a healthy high street depends on healthy back streets'. A 1981 CBI document also revealed that companies had an incentive to find solutions to social problems, otherwise governments might do so in a way which was more costly to employers. This rings of the Beesley and Evans (1978) argument that corporate social responsibility is about system maintenance in the face of environmental change. In the case of the provision of secondees to LPs, often firms are taking advantage of the opportunity to broaden the experiences of their future managers, whereas in other cases secondments provide an alternative to early retirement for middle level personnel. Whatever the precise motives the business activities we have identified are consistent with the observation of Kempner et al (1974) of a 'paradigm shift' in the mode of interaction between the business corporation and society for the integration of private action and social goods, without the need for central social decision-making.

This brings us to the second component of this Market factor, the conspicuous encouragement of entrepreneurship.

The change in government 1979 marked a clear shift in favour of the encouragement of business and of business creation. The costs of employing people have been reduced in the form of the decrease in the employers' contribution to National Insurance, and other tax burdens on small businesses have been lifted. Various forms of advice to small businesses have been provided through the field offices of assorted government agencies. The creation of small enterprises has also been seen by the Thatcher government as a direct solution to the unemployment problem. Thus under the Enterprise Allowance, which commenced in 1981, unemployed people were able to receive the equivalent of social security for one year whilst running their own small business. Enterprise Zones were also created early in the Thatcher administration. These effectively relieved businesses of paying rates in specified areas of high unemployment. Various other forms of deregulation have been introduced to try to assist business and the creation of enterprise. There has been the Business Expansion Scheme which subsidises approved expansion of small business activities. Space does not permit a detailed assessment of these initiatives. In general it is true to say that individually they have not achieved the specified goals. Collectively however they provide another pool of opportunities, both for business people, and from our point of view for LPs themselves. Thatcher government has also contributed in policy and rhetorical terms to making business life seem more respectable and available for the individual citizen. Indeed, LPs have been given great credit and encouragement by the present government. This is paradoxical in two senses; first because at the same time the government has been making great efforts to inhibit the scope and powers of local government, and secondly because the support actually includes the provision of financial resources to underwrite the the activity of local economic development - alone, the market will not suffice.

LOCAL PARTNERSHIPS - AN ILLUSTRATION

In broad terms we have seen that LPs have emerged from Collectivist public policies, from public policies which encourage Market activities, and from new forms of behaviour of firms. There is however, certainly considerable variety in the forms that local partnerships take. These variations often reflect such factors as the structure of the local economy, the nature of the major employers therein, the political complexion and stability of the local government, the policy space afforded to the LP by the local government and other governmental agencies active in the area. For purposes of illustration this paper will present a short profile of the Neath Development Partnership (NDP). It should be noted that this is not necessarily typical of other LPs, but it is seen in the LP movement as something of a model. As such it throws into sharp relief the distinctive features of the LP type.

The NDP was set up following a CBI SPU Town Study (as described above) sponsored by the newspaper conglomerate International Thomson Organisation (ITO), and which also included other firms, and local government officers and councillors. NDP was created as a company limited by guarantee without share capital, and it was registered as an enterprise agency thereby allowing its sponsors to offset their contributions against tax. The Board of Directors consists of representatives of the NDP's sponsors, and they invite interested and important public (e.g. the Welsh Development Agency) and private (e.g. major local employers) organisations to take part. The guiding principles are to keep membership small, and only those who could 'bring something to the picnic' should be invited.

The NDP has acted as something of a policy entrepreneur in Neath, filling a gap left by local government and local businesses. Initially its role consisted of being a catalyst for new business ideas in Neath (e.g. in tourism) and as managing agent for various of the direct government

training and employment subsidy schemes (see above). In so doing it attempted both to contribute to further business opportunities in the area and to contribute to Neath's physical, recreational, and business attractiveness. Later the NDP also began to act more concertedly as a local development company, giving emphasis to the management of substantive activities and the development of new trading opportunities.

The NDP needs to be understood as both a structure and a process. As a structure it has its own organizational identity; a legal standing, staff and an office. As a process it should be seen as the activity of bringing together a whole range of different actors in order to coordinate resources and responsibilities, and to create a consensus as to how these should be best used for local economic development and employment creation. The local government authority provided financial support and political legitimacy for the NDP, which in return has offered business expertise and access to private sector resources for the locality. The NDP acts in an entrepreneurial capacity which the local government could not do. This entrepreneurial style is not just in respect to its activities in the market, but also with respect to the way it wins, aggregates and uses public funds available under various headings (e.g. direct responses to unemployment, regional development, enterprise creation, urban development).

What, more precisely, does the NDP do? A number of distinct, but related activities can be identified, and these are broadly typical of other LPs. The encouragement of small business takes two broad forms. First there is assistance in finding suitable sites and premises, and the encouragement of other organizations to provide these. The NDP is a little bit unusual in actually providing small workshops, though these have now fallen under the control of the local authority. Secondly, there is the provision of counselling to potential and existing business people,

especially concerning the access to funds (private and public). Another major of activity is the encouragement of sectoral diversity in the local economy; in the case of Neath this consisted of an emphasis on tourism and information technology services. The third major activity is more obviously public sector related, and can best be described as planning for urban renewal. This involves negotiation and bargaining with various public funding bodies as well as with potential private developers, of coming up with a range of ideas, and of generally giving impetus to the planning process. The NDP is quite typical in having got involved in training activities, both for the unemployed and for entrepreneurs. The former is very much a matter of drawing upon ear-marked national public funds, and the latter is usually a more low cost activity and is clearly more private sector orientated.

This summary of activities has been intended to give a flavour of the heterogeneity of the LPs' focuses and reference points. Perhaps the picture can be completed by brief reference to their financing, and again the NDP will be used for illustrative purposes. Between 1981 and 1987 NDP received 1.147million pounds, of which 687,000 pounds was from public sector sources, and the rest from private sector sources. In terms of expenditure that can be quantified the public sector plays the leading role. These figures do not take account of secondments and expertise of which the private sector has contributed more than the public sector.

LOCAL PARTNERSHIPS IN CONTEXT

The NDP and other LPs clearly spell partnership. Whilst this is often characterised by patterns of ad hoc activities, there is also evidence of their evolving role as strategic economic developers. Whilst the style of operation is often more reminiscent of that of a business organization than a public authority, the anti unemployment foundation and this strategic economic development role are

clearly in the public policy domain. All this amounts to a form of intervention in the market - rather than simply leaving it to the market. The intervention is largely at public expense. The terms of reference and the ideas themselves are however, more explicitly business oriented than might otherwise be expected (Neath, for example, has long had a Labour Council). Mutual dependencies between the public and private sectors are chrystalized in the form and activities of the LPs. The LPs represent a marked change from the Collectivist ethos which assumed an interventionist public sector. On the other hand they most certainly cannot be characterised as non-interventionist nor as privatizations of public policy.

LOCAL PARTNERSHIPS ASSESSED

Layard and Nickel (1985) have estimated that 75% of the increase in UK unemployment between 1975-79 and 1980-83 was due to deficient demand. Even allowing for the possibility of local and regional activities having some distinct impacts, it is thus with some scepticism that we should approach the potential impacts of the LPs. In any case it is very difficult to find reliable indicators of much LP activity (e.g. can we isolate the consequences of LP activity on the decision to create or expand a business?). In any case these organizations are often poor record keepers. In the narrowest terms they should of course be judged by their impacts on unemployment. The problem is that the employment creating activities of LPs do not correlate with local unemployment; consider the impacts of a single plant closure on the record of a small town LP - and this has been the reality for many localities with the recent dramatic slide of the British manufacturing base. This is a reflection of the stark reality that most key local economic decisions are taken in head offices located in London or even overseas. The Neath Development Partnership, for example, claims to have been instrumental in the creation of about 1,700 jobs in six years. On the other hand, overall unemployment in the area increased by

over 3,000 in the years 1982-85. By comparative standards, LPs do prove to have been cheap ways of labour creation, though it should be added that the types of job created tend to be relatively low-skilled, low-paid, often part-time, and in the light industry and service sectors.

Conversely, LPs have grown at a remarkable rate; in 1980 there were about 20, to-day there are well over 250. They have become a nation-wide phenomenon and enjoy the support of all political parties. Very quickly they have become the stuff of motherhood and apple-pie. It is difficult to predict whether they will be a lasting phenomenon. In many respects they look very fragile; they usually only have two or three staff, and few have guaranteed finance beyond the current financial year. On the other hand they now seem to occupy a critical position in the local political economies: this raises possibilities of their future institutionalization or capture. Yet either of these future scenarios would undermine the very qualities of adaptability and partnership which have made them distinctive thus far. Other questions for their future role concern the extent to which they are able to combine the initial focus on local unemployment with that of economic development. There are already signs that LPs are not able to perform the role of provider for societies most-disadvantaged - only its least-disadvantaged. The long-term unemployed do not generally number among the new small business people, nor are they the first beneficiaries of expansions of existing local businesses. These points lead us on to other questions should the State seek to pass on further social responsibilities to LPs or like bodies; how far will notions of national equality of provision and service be sacrificed in pursuit of local responsiveness?

Leaving aside their precise micro economic impact and future prospects, it is just worth underlining their broader political significance to date. The LPs are most certainly beyond Collectivism: they stand for local self-help sort of strategy, and are symptomatic of a contracting out of public

policy that we witnessed in the Unemployment Industry. The role of local government in the local economy has been extended from that of customer, subsidizer, and regulator to include that of Partner. So too have the LPs been symptomatic of a change in the role of business: they have contributed to the bringing-in of the private sector to the resolution of public policy questions at the local level. It could be argued then that Local Partnerships have constituted an important part of a systematic reformulation of the local political economy.

LOCAL PARTNERSHIPS IN THE THIRD SECTOR

Finally, there follow some rather unsystematic observations concerning the place of LPs in respect of other actors in the Third Sector.

LPs cannot be considered as voluntary, even though the members may give up their time and there are some volunteered services and goods from the corporate sector. Funding is primarily public, and key members draw wages.

LPs are not primarily self help groups: they act ostensibly for the unemployed and for the local economy.

Like most other Third Sector actors LPs have no statutory powers and responsibilities.

Like many other Third Sector actors LPs identify public needs and act in response to these.

Like many other Third Sector actors LPs tend not to be highly bureaucratic - especially in their early phases. There is some evidence to suggest bureaucratization processes in the Unemployment Industry more broadly, but little as yet within LPs themselves.

LPs tend to act entrepreneurially in respect of public organizations and public goods. This is probably a function of the former point.

LPs act in economic markets. This is especially the case where they take on their own productive activities (e.g. charging for services to some clients, leasing property, setting up subsidiary companies).

Another market aspect of their behaviour is that LPs are often in competition with each other. This could be for public or private investment in their locality, or for special status for their locality from the government (which may bring up market advantages).

Relatedly, LPs offer little scope for coordinated policy responses to public policy questions.

LPs provide opportunities for policy experimentation. There is plenty of evidence of learning from one another.

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FOOTNOTES

1. This paper draws on the findings of a research project based at the Politics Department, Strathclyde University 'Local Responses to Unemployment' of which I was a co-director with J.J.Richardson until leaving for Australia in 1985. The project has produced a number of papers and journal articles, and most recently, a book; Chris Moore and J.J.Richardson in assoc. with Jeremy Moon, Local Partnership and the Unemployment Crisis (Allen and Unwin. 1989).

2. The diaries of former Conservative PM Macmillan, for example, attest to his horror at the plight of his unemployed constituents in Stockton-on-Tees. Macmillan was probably one of the most significant Conservative figures in the acceptance of Collectivism.

3. The health of the economy came to be judged primarily by the extent to which a balance between inflation and employment could be achieved. As the problems of balance of payments and public debt emerged these were increasingly built into the definition of economic health. The instruments used were primarily fiscal until the mid 1970s when a mix of monetary and fiscal measures was introduced. In the first years of the Thatcher administration monetary measures assumed primacy, but since then a balance has been used primarily to reduce inflation and public debt. Note the departure in macro economic policy that the Conservatives have assumed that there is a natural rate of unemployment; it is thus no longer a key factor in macro economic policy.

4. Between 1945 and 1979 the Conservatives won four elections and Labour six. If we excluded Labour's narrow win in 1950 and the first election of 1974, neither of which enabled it to sustain office for long, we would be left with four victories each. Both parties held office for seventeen years in this period.

5. The government has engaged in various forms of 'numbers game' since the early 1980s having the overall effect of making the levels of unemployment appear less than they otherwise would do. Indeed the current means of counting, which produce a current unemployment level of about 2 million, is so very

different from that used at the beginning of the decade that comparisons have lost all but symbolic meaning.

6. It's name was changed in 1988 to the Training Commission.

7. e.g. The Link Organization was created to earn commissions for placing young people under the Youth Training Scheme. In 1983 it employed 60 of its own staff, and had a turnover of about 1.5 million pounds. (The Times, 26.4.83)

8. e.g. representatives of the Scottish Office invited the Carnegie UK Trust to form the Unemployed Voluntary Action Fund (whose trustees included public servants) whose responsibility was to allocate funds (0.5 million pounds in 1983) to voluntary organizations who sponsored programmes for the unemployed.

9. In the case of some charities this has led to rather profound changes in their activities e.g. in 1982 the Community Service Volunteers depended on the MSC for about 70% of its annual turnover.

10. The CBI SPU Board in 1982 consisted of senior representatives of the following organizations; Metal Box PLC, the CBI, Z.Brierly PLC, International Thomson PLC, Thorn EMI PLC, Wimpey Construction UK PLC, BP Oil PLC, Guest Keen and Nettleford PLC, United Biscuits PLC, Ranmk Xerox PLC, BAT Industries PLC, PA Management Consultants PLC, National Freight Consortium, British Railways Board, Barclays Bank PLC, and Prudential Insurance PLC.

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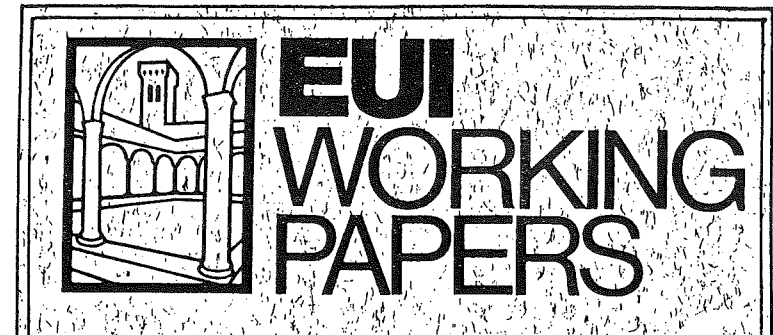
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