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HETERODOX PERSPECTIVE**

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RECONCEPTUALISING THE THIRD SECTOR: TOWARD A HETERODOX PERSPECTIVE

Vladimir Valentinov¹

Abstract

The paper explores the way the work of classic institutionalist authors can inform modern nonprofit economics. From the perspective of Thorstein Veblen, nonprofit organisation is explained as an institutional consequence of the pecuniary-industrial dichotomy. John R. Commons' institutional economics is used to highlight the role of nonprofit organisation in eliminating excessive scarcities of vital goods, thus achieving a more reasonable standard of living in a society. In the theoretical system of Clarence Ayres, nonprofit organisation is shown to embody a particular stage in the progressive weakening of the institution of private property in response to technological imperatives. The paper concludes with discussing nonprofit organisation as a conceptual link in reconciling the institutionalist paradigms of instrumental value and reasonable value.

Key words: institutionalism, nonprofit organisation, Veblen, Commons, Ayres

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1. Introduction

In recent decades, the economics of nonprofit organisation has become a truly booming field. The nonprofit sector, and the associated institutional constructs referred to as the third sector, voluntary sector, and social economy, are gaining increasing recognition from policy-makers, practitioners, and academics. In the UK, nonprofit firms have been recognised as “important agents in the battles against social exclusion, poverty and environmental degradation, and key actors in the creation of social capital and the delivery of public services” (Haugh and Kitson, 2007, pg. 990). The growing impact of the nonprofit sector on diverse aspects of social life across the world has been matched by significant advances in the nonprofit economics literature. Nonprofit organisations have been found to address a variety of market and governmental failures (Steinberg, 2006), and to constitute an integral part of healthy democratic societies (Anheier, 2009; Clemens, 2006).

Most of the theoretical work on nonprofit economics has been done in the traditions of neoclassical and new institutional economics (Jegers, 2008; Steinberg, 2006). Both traditions adopt a thoroughly individualist outlook and both explain the existence of the nonprofit sector in terms of its ability to address market failure. However, even within the ranks, the market failure theories have been criticised for their lacking account of the so called supply-side determinants that accentuate nonprofit organisation as an outlet for altruism, ideological entrepreneurship, and practicing of social values (Steinberg, 2006; Hansmann, 1987). In a relatively recent authoritative overview of modern nonprofit economics, Steinberg (2006) concedes that a unified theoretical framework, that would clearly derive the motivations of nonprofit entrepreneurs from those of customers or citizens who seek the correction of market and governmental failures, has yet to be developed. Put simply, current nonprofit economics recognises no effective linkages between the reasons why nonprofit firms are needed and the reasons why nonprofit firms are founded and operated.

This weakness of market failure theories of nonprofit organisation has been widely recognized in the literature (Hansmann, 1987; Ben-Ner and Van Hoomissen, 1991; Steinberg, 1993, 2004; Rose-Ackermann, 1996). Yet, its theoretical significance appears to have been seriously underestimated. In fact, the very notion of market failure is ultimately attributable to the divergence of motivations of consumers and for-profit entrepreneurs. Hence, if nonprofit firms are to correct market failures resulting from the operation of for-profit firms, they must exhibit a better integration between the motivations of those who create them and those who consume their outputs. The lack of this integration undermines the ability of nonprofit firms to compensate for the limitations of the for-profit sector. Put differently, it is not just that integrating the demand-side and supply-side justifications is a promising area of further research; rather, without this integration, the whole set of market failure theories of the nonprofit sector suffers from a fundamental deficit of plausibility.

At the same time, the chasm between the market failure and supply-side arguments for the nonprofit sector disappears if analysis is done from the more holistic perspective advocated by classical institutionalism in the tradition of Veblen, Commons, and Ayres. According to this strand, society is a holistic entity engaged in the evolutionary process of problem-solving, which is basically about societal self-provisioning with the material means of life (Tool, 2001; Hodgson, 1998; Samuels, 1995). In this context, the role of nonprofit organisation is to be seen in facilitating this problem-solving process by overcoming the “cultural lag” implied in the ceremonial framework of price system embodied in the for-profit sector. Central to the operation of the nonprofit sector is the notion of discretionary social control of the

economy (e.g., Tool, 2001) and the associated denial of any meaningful "automaticity" of markets (Gruchy, 1987). Discretionary control is a mechanism of deliberate adjustment of the economy in order to make it adequately provide for the values of individuals and their communities (ibid, p. 5). In the nonprofit sector, specific examples of social discretion can be most articulately seen in nonprofit firms' mission statements. In essence, these statements constitute societal judgments on those specific aspects of "cultural lag" that need to be overcome in order to bring the economy in better conformity with community values.

Excessive methodological individualism of modern nonprofit economics has not gone unnoticed in the nonprofit literature. Most importantly, Anheier and Salamon (2006, p. 106) contrast the conventional new institutional economics theories of the nonprofit sector with their own "social origins" theory that "emphasizes the embeddedness of the nonprofit sector in the cultural, religious, political, and economic realities of different countries. It thus views decisions about whether to rely on the market, the nonprofit sector, or the state for the provision of key services as not simply open to choice by individual consumers in an open market... Rather, it views these choices as heavily constrained by prior patterns of historical development and by the relative power of various social groupings that have significant stakes in the outcomes of these decisions".

The social origins theory comes close to the insight that the rationale for the nonprofit sector is ultimately to be sought in the historical societal problem-solving embedded in the broad institutional environment. Yet, this theory is centrally concerned with explaining the geographical variation in the characteristics of the nonprofit sector, rather than with revealing the sector's role in the culturally conditioned societal self-provisioning with the material means of life. This paper will tackle the latter question by analysing some of the implications of the classical institutionalist literature and applying it to the modern theoretical understanding of the nonprofit sector. As already mentioned, an immediate consequence of adopting the classical institutionalism's holistic perspective is the dissolution of the chasm between demand-side and supply-side justifications for the nonprofit sector, since the complex and multidimensional societal problem-solving no longer needs to be straightjacketed into individual behaviour of nonprofit entrepreneurs. However, there is an additional, and fairly obvious, feature of classical institutionalism that makes it highly appropriate for explaining the societal meaning of the nonprofit sector. This feature (and its key distinction from new institutional economics) is a critical attitude toward markets. In the words of Samuels (1995, p. 580), "a principle theme of institutional economics has been that the economy is more than the market".

Scepticism toward markets permeates most of the work of classical institutionalists and their modern followers. The Veblenian dichotomy explicitly questions the instrumental value of market-mediated interstitial adjustments in the industrial system and in the community life process more generally; C.H.Cooley viewed the market as a real-world institution introducing important biases into the process of social valuation, rather than serving as a neutral want-registering mechanism; John R. Commons, while less sceptical than reformist, emphasised the need to save American capitalism by making markets more reasonable; Clarence Ayres warned of the degrading consequences of "price obsession" and regarded the market as a pecuniary ceremony often standing in the way of industrial-technological progress. These and other critical and profound reflections on the role of markets in the societal self-provisioning process stand remarkably close to the fundamental idea of nonprofit economics that the for-profit sector fails, in important respects, to meet expectations of consumers and citizens, thus calling for alternative institutional arrangements explicitly rejecting the profit motive as the key motivational driver.

The institutionalists' attitude toward markets is, however, a complex and multidimensional issue that is certainly not reducible to mere opposition for its own sake. Rather, at stake here is a nuanced and realistic analysis of real-world markets as expressions of a broader organisational-institutional structure of society (Ayres, 1978). A genuine institutionalist analysis of the nonprofit sector must thus involve an exploration of historical and cultural reasons for supplementing the operation of real-world markets with the deliberate social control in the form of multi-stakeholder mission-driven organisations. This kind of analysis obviously engenders a host of new issues related to the limits of market-centred economic theorising in explaining the nonprofit sector.

One of these issues, for example, is the role of efficiency as the normative benchmark. Various new institutional economic models of nonprofit organisation sought to identify the conditions under which it presents an efficient solution to contracting problems. Yet, many institutionalists find the neoclassical conceptions of efficiency and optimality highly dubitable. While many institutionalists are sympathetic to nonprofit organisation as an institution dispensing with the primary role of pecuniary motivation, this sympathy is clearly justified on grounds other than neoclassical efficiency (Adaman and Madra, 2002; Chasse, 1995). Indeed, a genuine institutionalist approach would reject the very notion of market failure as an economic justification for nonprofit organisation. This, in fact, is a claim repeatedly made by contemporary non-economist nonprofit scholars who feel that market failure theories of nonprofit organisation relegate it to the periphery of an allegedly market-centred social reality (cf. Lohmann, 1992). The very term "nonprofit" conveys connotations of being abnormal and residual in an otherwise profit-driven economy, just as the term "third sector" invites interpretations of "thirdness" in terms of relative unimportance (ibid).

All in all, the theoretical and methodological affinities notwithstanding, the issues of nonprofit organisation have largely escaped the attention of modern institutionalists (but see Adaman and Madra, 2002; Chasse, 1995; Valentinov, 2009). This is a sad omission, as the planning function of "organised social intelligence" is not limited to the public and private for-profit sector (Klein, 1984; Galbraith, 1967; Munkirs, 1983), but is obviously exercised in the nonprofit sector as well. This paper is aimed at calling institutionalists' attention to the nonprofit sector by analysing the way a study of the institutionalist classics, such as Thorstein Veblen, John R. Commons, and Clarence Ayres, can inform the modern theoretical understanding of nonprofit organisation. Toward this end, the following sections explore: the nonprofit economics implications of the Veblenian pecuniary-industrial dichotomy; John R. Commons' exposition of the complex relationships between scarcity, efficiency, transactions, and reasonable value; and the Ayresian conception of pecuniary ceremonies hindering the attainment of instrumental value. The paper concludes with an exploration of the unique potential of nonprofit economics in reconciling the institutionalist paradigms of instrumental value and reasonable value.

2. Thorstein Veblen

This section discusses Veblen's criticisms of the price system that offer insights about the way in which the for-profit sector's shortcomings create a niche for nonprofit organisation. The first subsection lays a general foundation for this argument by building on the notion of the Veblenian (pecuniary-industrial) dichotomy; the second subsection examines some of Veblen's explicit statements on nonprofit organisation and its role in pecuniary and emulative society.

2.1. Pecuniary-industrial dichotomy

The pecuniary-industrial dichotomy is a major theme in the work of Thorstein Veblen, and is indeed, "a basic analytical tool of institutional economics" (Munkirs, 1988, p. 1035). It occupies a central place in the writings of many institutionalists, and no brief discussion can do full justice to this fundamental notion. This subsection highlights the specific aspect of the pecuniary-industrial dichotomy that yields potential insights into the nature of nonprofit organisation. Arguably, this aspect is related to the limited ability of the for-profit sector (as an institutional embodiment of the price system) to enhance the quality of human life.

More specifically, in the *Theory of Business Enterprise*, Veblen argues that the management of industrial affairs through pecuniary transactions dissociates "the interests of those men who exercise the discretion from the interests of the community" (1958, p. 20). Furthermore, for the businessman "the vital point of production is the vendibility of the output, its convertibility into money values, not its serviceability for the needs of mankind. A modicum of serviceability, for some purpose or other, the output must have if it is to be saleable. But it does not follow that the highest serviceability gives the largest gain to the businessman in terms of money" (ibid, p. 30). Another implication of the dissociation of the interest of businessmen and that of community is found in the tendency of businessmen to "play at cross-purposes and endeavour to derange industry" (ibid, p. 23). In contrast to modern constitutional economists indicating the public virtues of competition (e.g., Vanberg, 1994; Buchanan, 2000), Veblen (1958) views competition as the basic obstacle in the way of a better societal self-provisioning with goods and services.

Thus, the pecuniary-industrial dichotomy locates the key problem of the for-profit sector in the possibility of pecuniary capitalisation of both serviceability and disserviceability to the community at large. A consequence of the pecuniary-industrial dichotomy is that no society can fully rely on the price system in meeting its material needs. Alternative institutions are necessary, institutions that defy the pecuniary logic of contractual exchange, with the obvious example being nonprofit organisations. Thus, in terms of the pecuniary-industrial dichotomy, nonprofit organisation achieves those industrial outcomes that are unattainable through pecuniary behaviour. Thus, from a Veblenian perspective, a key attribute of nonprofit organisation is its underlying nonpecuniary motivation that presents the basic mechanism whereby nonprofit firms compensate for the limitations of for-profit firms.

While somewhat akin to market failure theories, the implied Veblenian outlook on nonprofit organisation is much more radical. Similarly to Veblen, the market failure theories of nonprofit organisation do admit that real-world for-profit firms may fail to act in the best interest of consumers (Steinberg, 2006; Hansmann, 1987; Ben-Ner, 1986; Weisbrod, 1991). Yet, these theories uphold the neoclassical notion of the consummatory state of competitive equilibrium as an adequate embodiment of that interest, and this is precisely what the Veblenian outlook denies. The price system is radically constrained in its capacity to enhance human welfare, thus calling for deliberate social control rather than competitive market equilibrium as a means for achieving social progress.

Both critically and affirmatively, the pecuniary-industrial dichotomy has been recognised as an inherently normative concept rooted in the instrumental theory of value. It is, in essence, this theory of value that leads institutional economists to doubt the capacity of the price system (and hence, of the for-profit sector) to enhance human welfare. More specifically, institutional economists join the pragmatist

philosophy in believing that values originate from the social problem-solving process, rather than from "introspective and subjective recesses of the minds of hypothetically rational individuals" (Gruchy, 1987, p. 63). Accordingly, values are held to be historical, socially and culturally conditioned, emergent, and subject to continuous reappraisal. According to Gruchy, "what is deemed to be valuable in the valuation process is the item, product, or cultural situation that enables the individual to reduce conflict or tension so that he or she may realise his or her full potential for personal development more effectively and may also contribute more effectively to the enlargement of community welfare" (ibid, p. 65). In this vein, Marc Tool's (2001, p. 293) social value criterion emphasises "the continuity and instrumental efficiency of re-creating community non-invidiously".

It is noteworthy that the neoclassical utility theory of value centred around optimal resource allocation has been developed to explain the operation of the for-profit sector. As mentioned above, institutional economists dispense with this kind of value theory; yet, the presumptive plausibility of this theory is at its maximum when it is applied to the for-profit sector. Conversely, this theory's limitations are particularly obvious in the case of the nonprofit sector. In particular, the instrumental theory of value contains two non-utilitarian postulates that are crucial for understanding the rationale of the nonprofit sector: 1) values are rooted in society rather than in individual introspection; and 2) values are continually reassessed in the course of ongoing social problem-solving. Indeed, the decision to create a nonprofit firm reflects a proactive attitude that is difficult to reconcile with the hedonistic view of economic actors as passively responding to the external stimuli of pleasure and pain. Furthermore, certain needs must be deemed as sufficiently important to warrant the creation of a nonprofit firm, while the utilitarian view of needs (or wants) as primary exogenous data precludes their critical examination. Finally, nonprofit firms' missions (that reflect the above needs) are obviously conditioned by the institutional, social, and cultural environment of particular societies, and arise from specific problems of these societies, rather than from a historical subjective introspection. Thus, from a Veblenian perspective, the role of nonprofit organisation as a nonpecuniary institution is seen in historically and culturally shaped societal problem-solving, and specifically that kind of problem-solving that fails to be attained by the price system.

2.2. Specific theses on nonprofit organisation

In *The Theory of the Leisure Class*, Veblen (1994, p. 205) states that "the pecuniary or the leisure-class culture ... is in its latest development beginning to neutralize its own ground, by eliminating the habit of invidious comparison in respect of efficiency, or even of pecuniary standing... That is to say, in the latest and fullest development of the institution [i.e., leisure class], the livelihood of members of this class does not depend on the possession and the unremitting exercise of those aptitudes which characterize the successful predatory man". Thus, one of the chapters of this book is entitled *Survivals of the Non-Invidious Interest*, and it is in this chapter that one finds Veblen's highly suggestive and incisive comments on nonprofit organisation. The title of that chapter, in fact, serves well as the base-line summary of these comments, viz. that nonprofit organisation constitutes a sort of residue of non-emulative nonpecuniary behaviour in an otherwise pecuniary society.

Veblen exemplifies this argument as follows: "So, for instance, the greater number of men who have to do with industry in the way of pecuniarily managing an enterprise take some interest and some pride in seeing that the work is well-done and is industrially effective, and this even apart from the profit which may result from any improvement of this kind. The efforts of commercial clubs and manufacturers'

organisations in this direction of non-invidious advancement of industrial efficiency are also well known" (ibid, p. 207). Furthermore, according to Veblen, similar rejection of pecuniary emulative behaviour is characteristic of organisations, "the purpose of which is some work of charity and of social amelioration... Such, for instance, are the agitation for temperance and similar social reforms, for prison reform, for the spread of education, for the suppression of vice, and for the avoidance of war by arbitration, disarmament, or other means; such are, in some measure, university settlements, neighborhood guilds, the various organisations typified by the Young Men's Christian Association and the Young People's Society for Christian Endeavor, sewing circles, social clubs, art clubs, and even commercial clubs; such are also, in some slight measure, the pecuniary foundations of semi-public establishments for charity, education, or amusement, whether they are endowed by wealthy individuals or by contributions collected from persons of smaller means - in so far as these establishments are not of a religious character" (ibid).

Veblen's view of nonprofit organisation bears the full imprint of his overall pessimism. In *The Theory of Business Enterprise*, he argues that nonpecuniary behaviour embodied in nonprofit organisation serves the purpose of alleviating the degrading cultural consequences of what he calls "the natural decay of business enterprise". "Something must be done, it is conceived, and this something takes the shape of charity organizations, clubs and societies for social 'purity', for amusement, education, and manual training of the indigent classes, for colonization of the poor, for popularization of churches, for clean politics, for cultural missionary work by social settlements, and the like. These remedial measures whereby it is proposed to save or to rehabilitate certain praiseworthy but obsolescent habits of life and of thought are, all and several, beside the point so far as touches the question in hand" (Veblen 1958, p. 179). According to Veblen, the futility of these nonprofit activities follows from their not "falling into the shape of a business proposition" (ibid) and being dependent "on the vagaries of personal preference, tastes, and prejudices" (ibid, p. 180).

Thus, Veblen's main critical concern with nonprofit organisation seems to be its pervasive dependence on the arbitrary will (and inadvertent impulses of workmanship) of members of the upper class. While he appreciated the ultimate instrumental value of tackling the social problems he mentions in reference to nonprofit organisation, he questioned the ability of the upper class to do so effectively, primarily in light of the inherently predatory and ceremonial culture that is constitutive of that class. For one, the pressure of devout observances, generally characteristic of the upper class, potentially undermines the instrumental role of nonprofit organisation. Writing about the combination of the devotional and secular well-being of nonprofit organisation beneficiaries, he was concerned that the concentration of effort on the devotional well-being impairs the chances of achieving secular well-being (which is the truly instrumental one) (Veblen 1994, p. 209-210). Furthermore, the ideological framework of particular nonprofit firms may involve inculcation to the beneficiaries "by precept and example, of certain punctilios of upper-class propriety in manners and customs. The economic substance of these proprieties will commonly be found on scrutiny to be a conspicuous waste of time and goods" (ibid, p. 210).

Truly satiric are Veblen's comments about the posthumous type of conspicuous waste, as exemplified in the administration of bequests of wealthy and public-spirited men (whose sincerity Veblen was even prepared to take for granted). "Certain funds, for instance, may have been set apart as a foundation for a foundling asylum or a retreat for invalids. The diversion of expenditure to honorific waste in such cases is not uncommon enough to cause surprise or even to raise a smile. An appreciable share of the funds is spent in the construction of an edifice faced with some aesthetically

objectionable but expensive stone, covered with grotesque and incongruous details, and designed ... to suggest certain barbaric methods of warfare. The interior of the structure shows the same pervasive guidance of the canons of conspicuous waste and predatory exploit" (ibid, p. 213). Later on, Veblen suggests that neither the donor nor the beneficiaries are likely to find fault with the described way of administration of funds, their obvious waste notwithstanding.

Veblen's specific theses on nonprofit organisation, as highlighted in this subsection, clearly anticipate some of the modern theoretical developments in this field. In particular, his pessimism about the nonprofit sector and his concern with its upper class domination are to an important extent paralleled by the "voluntary failure" theory of Lester Salamon (1987). Salamon argues that nonprofit firms have several inherent shortcomings preventing them from delivering their missions. The primary voluntary failure is philanthropic insufficiency, i.e., "inability to generate resources on a scale that is both adequate enough and reliable enough to cope with the human service problems" (ibid, p. 111). Others include philanthropic particularism, philanthropic paternalism, and philanthropic amateurism. All of these shortcomings, while constraining the ability of nonprofits to address the underlying social ills, are associated with upper class philanthropy.

Another important modern conception is the ideological entrepreneurship theory of nonprofit organisation as presented in the work of Estelle James (1987), Susan Rose-Ackerman (1996), and Dennis Young (1983). A fundamental idea of this literature is that nonprofit firms are often created and operated by mission-driven and ideologically-oriented individuals deriving satisfaction from living up to their ideological convictions. Veblen's analysis of nonprofit organisation not only anticipates this idea, but also introduces the fundamental criticism that the ideological orientation may stand in the way of nonprofit firms' instrumental efficiency (i.e. their ability to realise instrumental value). While admitting that controlling the behaviour of ideological entrepreneurs may present a challenge to various nonprofit constituencies, the modern literature stops short of exploring the latter criticism.

Yet, the pessimism about the long-term instrumental efficiency of the nonprofit sector did not prevent Veblen from believing in this sector's unique feature of at least partial elimination of the pecuniary motive. Veblen was fully aware that organisations pursuing the purposes of charity and social amelioration are often "initiated and carried on with a view primarily to the enhanced repute, or even to the pecuniary gain, of their promoters" (Veblen, 1994, p. 208). At the same time, according to Veblen, "after all allowances and deductions have been made, there is left some remainder of motives of a non-emulative kind. The fact itself that distinction or a decent good fame is sought by this method is evidence of a prevalent sense of the legitimacy, and of the presumptive effectual presence, of a non-emulative, non-invidious interest, as a constituent factor in the habits of thought of modern communities" (ibid). Thus, in Veblen's view, nonprofit organisation is a consequence of pecuniary-industrial dichotomy, and seeks to attain instrumental value that is unattainable through pecuniary behaviour. Yet, nonprofit organisation is too weak to fully realise this purpose and thus to save capitalism. On the latter point, an opposite view was entertained by John R. Commons, to whom we now turn.

3. John R. Commons

This section brings together several threads of John R. Commons' multifaceted theory in order to construct an explanation of nonprofit organisation. The first thread is given by Commons' theory of transactions and the related discussion of the principles of

scarcity and efficiency; the second thread is his theory of reasonable value. These are discussed in the first two respective subsections. The last subsection combines these threads in order to draw theoretical implications for nonprofit organisation.

3.1. Scarcity, efficiency, and transactions

A basic commonality between the institutional economics of John R. Commons and the mainstream neoclassical theory is the central importance of scarcity. Commons, however, treats this notion in a way much different from that of orthodox economics. According to him, "institutional economics openly avows scarcity, instead of taking it for granted, and gives to collective action its proper place of deciding conflicts and maintaining order in a world of scarcity, private property, and the resulting conflicts" (2005, pg. 6). Thus, scarcity causes conflicts, the resolution of which requires collective action in the form of going concerns structured by working rules. While recognising the allocational role of scarcity, Commons explained wealth generation in terms of another universal principle he termed "efficiency", which "overcomes scarcity by cooperation" (ibid).

The relationship between the principles of scarcity and efficiency is a multifaceted theme whose explicit discussion occupies more than one hundred pages of Institutional Economics. Commons treats these principles as the basic two dimensions of economic value, neither of which is more important than the other. "By efficiency is meant ... the rate of output per unit of input, the man-hour, thus increasing the power over nature... By scarcity is meant ... the rate of proprietary income from other persons relative to the rate of proprietary outgo, measured by the dollar" (Commons, 2005, p. 259, emphasis in original). Crucially, efficiency is associated with the "engineering concept of wealth" understood as production regardless of prices, while scarcity underlies the formation of prices as scarcity-values which are necessary in order to allocate productive resources. "So far as the engineer is merely an engineer, not under the businessman's orders, he goes on producing indefinitely. Today, he has become surprised that the world's business organization will not permit him to use his abilities for the good of mankind" (ibid, p. 256).

According to Commons, a clear differentiation between these two principles is an important achievement of his theory of institutional economics. Indeed, without their difference being made clear, one has to assume that "restricting output is a service and increasing output is a service. Increasing the scarcity of goods is a service, and increasing the abundance of goods is a service" (ibid, p. 257). By distinguishing between scarcity and efficiency, Commons is able to explain the way "in which private ownership renders a service to society. It is not by production, but by the regulation of production... If the farmer finds that the price of wheat is falling, but the price of hogs is rising, he turns his labor-power from wheat to hogs. He supplies a more intense demand by producing hogs, and a lesser demand by producing wheat. This is indeed a service to society, if it is well done" (ibid, pp. 257-258, emphasis in original). The fundamental importance of both scarcity and efficiency leads Commons to define capitalism as "the double process of creating use-value for others and restricting its supply so as to create scarcity-value" (ibid, p. 284).

Commons associates the principles of scarcity and efficiency with bargaining and managerial transactions, respectively. "Bargaining transactions transfer ownership of wealth by voluntary agreement between legal equals. Managerial transactions create wealth by commands of legal superiors" (ibid, p. 68). In this way, scarcity underlies the notions of property and assets, while efficiency engenders the notion of wealth. Operating through bargaining and managerial transactions, the relationship of scarcity

and efficiency poses the institutional problem of the sharing of the available wealth and the "inducements to keep the concern going" (ibid, p. 256). It is in this problem of sharing that ethical considerations, implied in the transactions, come to the fore and are explicitly analysed by Commons in his theory of reasonable value and rationing transactions.

3.2. Reasonable value

Ramstad (2001, p. 263) argues that a key to understanding the Commons theory of reasonable value is Commons' conception of correlation of economics, ethics, and law in the transaction. The ethical component of the transaction primarily refers to the extent to which the transaction is reasonable. In general terms, the problem of reasonable value is concerned with the issue of "whether one is giving up a larger share, and the other is therefore receiving a larger share of the social output than is 'reasonable'" (Commons, 2005, p. 333). This formulation of the value problem is "a radical departure from the usual procedure in economic theory. Instead of individual valuation, we have social valuation. Instead of a theory of valuation at the limit of perfect competition, we have valuations in the zone of private power" (Parsons, 1970, p. 362). The reasonable value problem is evidently implied in Commons' definition of political economy as the "proportioning of inducements, by means of working rules, to individuals and associations" (Commons, 1924, p. 387). It is thus natural that the relationship between scarcity and efficiency also falls within the purview of the reasonable value theory (cf. Commons, 2005, p. 387).

This theory has been widely, and controversially, discussed in the secondary literature on Commons, particularly by contrasting it with the instrumental theory of value (e.g., Ramstad 1989, 2001; Atkinson and Reed, 1990). Commons (1970, p. 25) argues that "reasonableness is best ascertained in practice when representatives of conflicting organized economic interests, instead of politicians or lawyers, agree voluntarily on the working rules of their collective action in control of individual action". Therefore, reasonableness can also be conceptualised as relating to the reasonableness limits of coercion in bargaining transactions (Commons, 2005, p. 331). For Commons, the starting point for examining reasonable value is the deviation of free competition from fair competition (ibid, p. 333). In the courts, reasonable value is determined "by the social method of ascertaining objectively what is customary, dominant, and therefore reasonable" (ibid, p. 340).

Of particular interest are Commons' specific suggestions on how bargaining transactions can be made reasonable through concerted action in the form of corporation and regulation. "In the corporate form the individuals authorize a board of directors and a manager to make the bargains which legally bind the share-holders. Individual bargaining is eliminated. But in the regulative method the participants, whether individuals or corporations, yield to the rules, laws, or regulations which determine limits upon their individual or corporate bargaining power. Individual bargaining continues, but is limited" (ibid, p. 342). Here, Commons is importantly prefiguring Williamson's analysis of the transaction cost-economising role of corporation as contrasted with arms-length market contracting (cf. Kaufman, 2007). However, and in contrast with the new institutional economics perspective, Commons explains both corporation and regulation in terms of the ethical purpose of reducing economic coercion that would be induced by unrestrained bargaining transactions. Furthermore, both the corporate and regulative methods of concerted action are realised through rationing transactions, a transaction variety that is absent in the market-hierarchy framework of transaction cost economics.

The potential fruitfulness of the theory of reasonable value for explaining nonprofit organisation can be glimpsed in Commons' distinction between two types of standards of reasonableness: standards of transactions and standards of living. "The former relate to managerial, bargaining, and rationing transactions in the production, marketing, and distributing of wealth. The latter are Standards of Consumption" (ibid, p. 701). The difference between these two standards of reasonableness seems to be that the former are primarily related to the business economy, while the latter reflect broader societal concerns over quality of life. Obviously, in Commons' work, the theory of reasonable value is much more centrally concerned with standards of transactions than with the standards of living. Yet, it is no less obvious that the issue of reasonableness, when raised in respect to the overall quality of life, is no less important than when it is posed in order to judge the fairness of business bargaining. Evidently, securing a reasonable standard of living, similarly to securing a reasonable standard of transactions, requires "concerted economic action" in the form of rationing transactions. As the next subsection argues, nonprofit organisation embodies a form of rationing transactions aimed at achieving the former standard.

3.3. Implications for nonprofit organisation

While Commons recognised the potentially destructive effects of pecuniary incentives on industrial performance (e.g., in differentiating between efficiency profits and scarcity profits), he did not uphold the radical Veblenian approach to the pecuniary-industrial dichotomy. Instead, Commons believed that the pecuniary and industrial behaviour, exemplified in the principles of scarcity and efficiency, could be harmonised in a reasonable relationship between these principles. As Atkinson and Reed (1990, p. 1097) argue, this harmonisation becomes possible through the use of "the concept of the transaction to make the distinction between the two types of behavior". More specifically, scarcity and efficiency can be made reasonable through rationing transactions. As discussed above, the main rationing transactions that make the business economy reasonable include corporation and regulation; and in reference to the societal concerns over quality of life, a relevant rationing transaction is evidently embodied in the operation of nonprofit organisation. As nonprofit firms are multistakeholder organisations that mobilise resources for addressing urgent societal concerns, they embody collective action reapportioning burdens and inducements in order to bring the relevant going concerns in better conformity with the evolving societal purposes.

The unreasonable relationship between scarcity and efficiency, implied in the Veblenian pecuniary-industrial dichotomy, evidently consists in the unreasonably large element of scarcity. Consequently, making this relationship reasonable calls for a diminished role of scarcity, and this is arguably what the involved rationing transactions achieve. This argument has direct implications for understanding the property rights structure of nonprofit organisation. Commons (1990, p. 260) insightfully remarks that property is "the volitional equivalent of scarcity". Accordingly, the diminished role of scarcity in the involved rationing transactions calls for the diminished role of property, and this is precisely what is implied by the preclusion of effective ownership through the nondistribution constraint of nonprofit organisation. Moreover, the diminished role of property is also observable as an outcome of those rationing transactions that achieve the reasonable relationship between scarcity and efficiency within business economy. In the new institutional economics literature, this diminished role of property is traditionally referred to as the attenuation of property rights and is criticised for its inefficiency (Furubotn and Pejovich, 1973; Alchian and Demsetz, 1972). Arguably, the classical institutionalist

perspective on the attenuation of property rights can be well exemplified by contrasting the concept of the nondistribution constraint with Commons' definition of institution as "collective action in control, liberation, and expansion of individual action". This perspective certainly takes into account that the nondistribution constraint controls (i.e., constrains) the action of those individuals whose behaviour is directly affected by the nondistribution constraint; but it also invites exploration of the ways in which the nondistribution constraint helps to liberate and expand the action of a whole set of other stakeholders who benefit from the nonprofit organisation activities. The new institutional economics framework of attenuated property rights fails to pay attention to these ways.

Another implication of the proposed argument is the existence of the important commonality between nonprofit organisation, for-profit corporation, and regulation. All of these can be seen as rationing transactions aimed at restoring the reasonable relationship between scarcity and efficiency. It is therefore inappropriate to postulate a conceptual chasm between the nonprofit, public, and private for-profit sector, since all of these present the instances of collective action that in various ways control, liberate, and expand individual behaviour. At the same time, the distinction between for-profit and nonprofit firms does not disappear. It can be discerned in the different role assigned by these firms to scarcity, as reflected in the difference in the way these firms' goals are defined. Not surprisingly, corporation and regulation as rationing transactions within the business economy do not radically challenge scarcity, but rather redefine it with a view toward making it more reasonable. Accordingly, corporations and regulated firms, while behaving more reasonably than in the absence of the involved rationing transactions, are still profit-driven and thus necessarily interested in maintaining definite (reasonable) scarcity relations. In contrast, nonprofit organisation referring not to the business economy but to the overall quality of life, does involve a more radical questioning of scarcity that may exercise a beneficial regulating effect on the former, but not on the latter. Accordingly, the organisational goals of nonprofit firms are fundamentally defined not in terms of profit, but in terms of achievement of substantive missions. The latter organisational goals are obviously defined in terms of efficiency, rather than scarcity. Thus, while corporation and regulation achieve a more reasonable relationship between scarcity and efficiency by modifying the existing scarcity patterns, nonprofit organisation embodies a conscious substitution of scarcity for efficiency in apportioning resources for resolving vital societal issues. This is arguably what is ultimately implied by the substitution of profit-related goals by mission-related goals.

4. Clarence Ayres

This section explores the potential contribution of Clarence Ayres to explaining the role of nonprofit organisation in modern market economies. The theoretical system of Clarence Ayres centrally builds upon the Veblenian pecuniary-industrial dichotomy. Indeed, according to Ayres (1978, p. xiv), "two forces seem to be present in all human behaviour in all ages: one progressive, dynamic, productive of cumulative change; the other counter-progressive, static, inhibitory of change". Following the Veblenian tradition, Ayres respectively designates these forces as technology and ceremonialism, with the phenomena of prices and private ownership being important examples of the latter (ibid). Even though the Ayresian technological-ceremonial dichotomy has invited some criticism from other institutionalists (e.g., Hodgson, 2004), it has enabled him to develop valuable technological interpretations of value and progress (e.g., Mayhew, 2010). Central to Ayresian understanding of value is the rejection of neoclassical equivalence between value and price: "prices do not measure

real values but only quantify the judgments people make antecedent to their price transactions. Whether those judgments are wise or foolish is determined not by the pricing mechanism but by their relation to the technological life-stream" (Ayres, 1978, p. 227). The Ayresian interpretation of progress, while complex and multifaceted, can arguably be well exemplified by his reference to the "significant and far-reaching displacement of ceremonial by technological functions throughout society" (ibid, p. 200). It is this "displacement of ceremonial by technological functions" that yields insights about the role of nonprofit organisation.

More specifically, this displacement is manifested in the progressive weakening "of all institutional ties and sanctions", including the institution of ownership, in modern Western society (ibid, p. 185). According to Ayres, this is required by the logic of progressive technological development. Among many examples of the weakening of the institution of ownership, Ayres discusses the separation of ownership and control in large industrial corporations. "So great has been the proliferation of technical instruments and skills in modern business that 'management' has come to play a constantly increasing part in its conduct, and 'ownership' a correspondingly decreasing part" (ibid, p. 199). Obviously, Ayresian interpretation of separation of ownership and control in terms of the "displacement of ceremonial by technological functions" stands in stark contrast to its new institutional economics interpretation in terms of attenuation of property rights. At the same time, as stated in the preceding section, attenuated property rights structures underlie not only for-profit corporations and public utilities, but also nonprofit firms. Accordingly, from an Ayresian perspective, nonprofit organisation can be seen as a particular instance of the progressive weakening of the institution of ownership in the overarching process of the "displacement of ceremonial by technological functions".

While Ayres does not tackle the issue of nonprofit organisation, he makes a number of insightful comments, the significance of which for nonprofit organisation becomes obvious if seen in the context of the above suggested perspective. He emphasises that the institutions of the state and property are essentially divisive and thus necessarily retain organisational structures that are too constrained and too small-scale to match the "universal pervasiveness of technology" (ibid, p. 291). Nonprofit organisation can be accordingly seen as an institutional instrument for overcoming the divisiveness, implicit in private profit-seeking, in order to address those societal challenges whose "universal pervasiveness" precludes an effective solution through markets and states. Given his argument about the divergence between price values and technological values and his related criticism of "profit-motivated non-production" (ibid, p. 304), it is easy to explain the rationale of nonprofit organisation in terms of its challenging the price values and directly producing those technological values that would not be produced in the profit-driven price system. More generally, the Ayresian perspective on nonprofit organisation locates its role in effecting an adjustment of institutions to technology, and thus overcoming a particular cultural lag, and certainly not in addressing market failure. From the Ayresian perspective, the evolutionary role of nonprofit organisation is to contribute to the development of what Ayres (1961) calls "the reasonable society", i.e., society governed not by ceremonial values of the price system, but by technological, or true, values. At the same time, given the open-ended character of Ayresian economics, nonprofit organisation must be seen as a particular evolutionary form of the progressive weakening of the institution of ownership. Its specific role can be understood only in the context of the real-world patterns of historical evolution of human societies.

5. Nonprofit organisation, instrumental value, and reasonable value

The preceding sections of this paper have located the rationale for nonprofit organisation in attaining both instrumental and reasonable value. The instrumental value argument, based on the work of Veblen and Ayres, holds that nonprofit organisation provides a means of enhancing community welfare beyond the capacity of the essentially ceremonial price system. The economic philosophy of nonprofit organisation is seen in challenging the societal relevance of pecuniary valuation, and thus in solving those societal problems that are either left unattended by the for-profit sector or arise from its very operation. In contrast, the reasonable value argument, derived from John R. Commons' institutional economics, does not involve a dichotomisation of values into ceremonial (pecuniary) and technological (industrial). Rather, it locates the role of nonprofit organisation in restoring a reasonable relationship between scarcity and efficiency in respect to what is deemed as a societally acceptable quality of life. Nonprofit organisation thus emerges as a means of attaining a reasonable socio-economic condition of society by reconciling conflicting values rather than by asserting the superiority of some values over others. Obviously, explaining nonprofit organisation in terms of instrumental and reasonable value involves quite distinct lines of argumentation. It is therefore worthwhile to explore how nonprofit organisation manages to realise this twofold task.

First of all, it must be noted that the relationship between instrumental value and reasonable value has been controversially discussed in the institutional economics literature. According to Ramstad (1989), instrumental value and reasonable value constitute competing and mutually inconsistent paradigms, as might be inferred from Commons' rejection of the Veblenian dichotomy because of its failure to incorporate reasonable value. Among others, Atkinson and Reed (1990, p. 1100) take exception to this view by arguing that "instrumentally efficient institutional adjustment must be reasonable; that is, it must be negotiated among the participants in a situation". Indeed, it is evident that the Ayresian instrumental process of "displacement of ceremonial by technological functions" can meaningfully proceed just as far as it is reasonable; what would be unreasonable, with respect to this process, is both excessive cultural lag and excessive displacement of ceremonies that is not warranted by the actual technological development. Both instrumental and reasonable values must thus be seen as crucially interconnected. Accordingly, social progress requires not only the attainment of each of these, but also the operation of a linkage between them, and it is here that nonprofit organisation assumes a special role.

More specifically, according to the instrumental value argument, nonprofit firms seek the realisation of instrumental value that is neglected by the system of pecuniary valuation. An obvious fact about this value is that its realisation requires the expenditure of resources that must be apportioned for that purpose through a specific decision-making mechanism (rationing transaction). Within the sphere of pecuniary valuation, the problem of resource allocation is solved through the price mechanism, yet it is the essence of the pecuniary-industrial dichotomy that this mechanism does not (sufficiently) accommodate instrumental values; hence it can provide no guidance in apportioning resources for its attainment. On what basis, then, should societal resources be apportioned for attaining instrumental value?

Arguably, the sought-for basis is given by considerations of reasonableness. As the price mechanism cannot be relied upon to enable the sufficient attainment of instrumental value embodied in health care, social services, arts, education, community development, and other areas, resources must be apportioned to these areas depending upon what extent of their development is considered reasonable. This understanding of reasonableness is, in fact, a logical continuation of the above

mentioned John R. Commons argument that bargaining transactions can be made more reasonable when supplemented by rationing transactions in the form of corporation and regulation. In this vein, with respect to standards of living rather than to standards of transactions, reasonableness is similarly achieved through rationing transactions in the form of nonprofit organisation. Nonprofit firms effect a reasonable proportioning of resources among distinct instrumental values by inducing their stakeholders to make decisions regarding voluntary resource contributions in the form of donations, volunteering, and working for a lower wage than could be earned elsewhere. Whereas different nonprofit firms seek to realise different types of instrumental value, their stakeholders, through their continuous decision-making on voluntary resource contributions, effect a reasonable proportioning of resources for the instrumental values in question. Thus, nonprofit organisation does not merely provide an example of conceptual reconciliation between instrumental and reasonable value paradigms; it constitutes a practical institutional mechanism for effecting this reconciliation.

6. Concluding comments

This paper argues that the modern multidisciplinary research on nonprofit economics can be informed by the classical institutionalist perspective in several crucial respects. From Veblenian economics, it can appreciate the role of nonprofit organisation as an institutional response to the pecuniary-industrial dichotomy, i.e., as an institutional outlet for nonpecuniary pursuits of workmanship that seek to realise industrial-technological value. From the institutional economics of John R. Commons, it can discern how nonprofit organisation eliminates excessive artificial scarcities and thus enables a society to achieve a more reasonable standard of living for its members. From the theoretical legacy of Clarence Ayres, it can benefit by recognising the special position of nonprofit organisation in the progressive process of “displacement of ceremonial by technological functions” and the associated weakening of the institution of private property as embodied, among other things, in the nondistribution constraint. All of these insights clearly differ from the new institutional economics approach of explaining nonprofit organisation in terms of how it addresses market failures. While the classical institutionalist perspective does not deny that nonprofit organisation may do so in specific historical and cultural contexts, it does not believe that the market failure argument constitutes the whole truth about this institutional arrangement.

The classical institutionalist perspective potentially gives rise to a new research paradigm on nonprofit economics. First of all, the analysis of classical institutionalist insights on nonprofit organisation in this paper is by no means exhaustive; there exists significant potential for extending the proposed argument from the perspective of classical and modern authors in the institutionalist tradition. An overarching characteristic of institutionalist research on nonprofit organisation is a critical attitude toward the existing institutional structure (cf. Samuels, 1995; Dugger, 1990). Thus, further research, both theoretical and empirical, needs to be done on how nonprofit organisation can be explained as a response to (or an expression of) the pervasive relations of power and coercion in modern societies. Yet another aspect of this critical attitude is involved in identifying disserviceable and purely ceremonial aspects of institutional structure and attributing them to specific instances of nonprofit organisation with respect to those. In overall terms, further theoretical and empirical research is required on how nonprofit organisation contributes to the historical, evolutionary, and holistic process of societal self-provisioning with material means of

life. To repeat, this research would present a clear and useful alternative to exploring how nonprofit firms address market failure.

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