

DRAFT ONLY
Not to be quoted without permission of the author

WHY THE THIRD SECTOR SHOULD INTEREST (AUSTRALIAN) POLITICAL SCIENTISTS

Presentation to Political Science Program Seminar, RSSS, ANU, 7 May 2003.
Mark Lyons, University of Technology, Sydney

This is far from a finished paper. Rather it is a series of notes (which will be elaborated in the presentation) arguing that there is much in Australia's third sector to interest political scientists and puzzling as to why there is relatively little interest.

Definitions and Dimensions

Australians generally divide their world of organisations into two: government and business.

Despite their diversity – government departments, government schools and hospitals, the police, the courts - people understand that there is a common core of logic to government organisations. They know that they are the mechanism by which a country is ruled, or by which a government provides services to its people; that they are, finally, thought often indirectly, controlled by the ruler. In a democracy, the behaviour of these organisations is accountable, in theory, through the minister that is responsible for them, to the parliament, and through parliament, to the people.

People also recognise a common logic to businesses – whether they are global corporations such as Coca Cola or Shell, large national banks or manufacturing concerns, partnerships of lawyers or architects, or a corner store. People understand that the organisational logic of business is to make money. People in business invest time and money and seek, indeed need, to profit from that. The logic of profit, of maximising profit, helps them make decisions about how to run their business.

Australians often overlook that there is a third class of organisations; organisations that are neither part of government, nor run primarily to make a profit; organisations that are, mostly, owned by their members and, in theory, governed democratically. These organisations are formed by people to provide services for themselves or for others, to advance a cause, to share an enthusiasm, to preserve a tradition, to worship a god or gods. Different groups of these organisations are known by different names: charities, unions, cooperatives, churches, clubs, associations, NGOs, and so on. Their common organisational logic resides in each being the product of a group of people's capacity to work collectively to attain a shared goal, without being conscripted by government and without the lure of profit. To clearly indicate this limit, most such organisations add a clause to their constitution that prohibits any distribution of profit to members, neither annually nor on winding up. A few allow some distribution but it is proportional to use,

not share holding. These (and most other third sector organisations) are governed democratically, on the principle of one member, one vote – unlike corporations where the size of the share holding determines the size of the vote. These features mean that these organisations behave differently to for-profit firms (and certainly differently to government agencies).

In Australia, there are perhaps as many as 700 000 of these organisations, almost as many as there are businesses. Most are very small, relying entirely on the commitment of time by (some of) their members to sustain them. Around 320 000 have acquired a legal identity separate from their members; about 35 000 employ at least one person. All but about 2 500 of these organisations are nonprofit distributing.

Economically, these nonprofit organisations contribute about 3.3 per cent to GDP, 4.7 per cent if the value of the voluntary effort they mobilise is cashed out and counted. This may not seem much, but it is larger than the contribution of the agriculture industry or than mining. It is larger than the entire economic contribution of the ACT or of Tasmania. The data in this paragraph come from the Nonprofit Institutions Satellite Account to the National Accounts for 1999/2000, published by the ABS in November last year.

In economic terms, the strength of Australia's third sector lies in the education, health, community services, sport and hospitality industries. Nonprofits are also very important in the arts and culture, and in the representation of interests (unions, trade associations, professional societies and other interest groups) and of course, religion. Many third sector organisations primarily serve a wider public, particularly those disadvantaged in the market place, not their members (some such as charitable trusts have no members). They are all nonprofit distributing and tend to provide services similar to governments. Other third sector organisations primarily serve their members.

Third sector organisations draw their revenue from many sources. The most common source by far is revenue from sales of goods and services and membership dues. Together these self-generated revenues constitute two thirds of total income. Although public serving nonprofits are significantly dependant on third party funding, even they receive 45 per cent of revenue from fees and sales. Less than one third of the nonprofit sector's revenue comes from government sources. Nonprofit schools receive 55 per cent of their revenue from governments while for community services nonprofits (sometimes called the community sector) the government contribution to revenue is just under one-half.

The third sector draws much of its support from the household sector. Almost one in three Australians volunteer for third sector organisations, almost 70 per cent donate funds (about \$3 billion) and almost the same percentage describe themselves as members of at least one nonprofit association. There is some evidence that Australia's third sector is in decline, but other evidence suggests that it may be in a process of transformation. Over the past twenty years, many mutuals have converted to for-profit status; many large membership organisations (unions, service clubs, mainstream churches, political parties)

report dramatic decline in membership. Yet the number of incorporated associations and nonprofit companies continues to rise and between 1996 and 2000, the economic output of the sector increased slightly faster than the economy as a whole.

When adjustments are made for population differences, Australia's nonprofit sector is about the same size as that in the United States and larger than the United Kingdom (despite the fact that the UK counts all universities as part of the sector on the ground that they are charities. The volunteer contribution is about the same (proportionately) in each country, but Australian's appear to be less generous with their money.

But arguably, the importance of third sector organisations lies not in their economic contribution, but in their contribution to society and to the operation of the political system, particularly a democratic polity. In both these cases, however the nature and extent of that contribution is contested and is harder to measure. The claims go something like this.

The third sector testifies to people's capacity voluntarily to work together without direction from government and without the lure of profit or the necessity of earning a wage. This capacity for self-organisation is sometimes said to be a product of (and reproducing of) social capital. It is said to be at the heart of a sustainable society and a necessary underpinning for the long-term effective operation of a market economy. There is evidence for these claims, but they are contested. The claim is most famously associated with the Harvard political scientist, Robert Putnam. Social capital research ranges over many more phenomena than the third sector.

It is also claimed that the third sector makes a major contribution to the effective operation of a democratic political system. Some third sector organisations directly participate in the political system, representing to policy makers the views of the many diverse social and economic interests that are present in any complex economy and society. They seek legislative or policy change, or try to resist changes advocated by other interests, including other third sector organisations. An important group of third sector actors in the political system are political parties. All aspire to have members elected to the legislature where they hope they can exert more influence on the government than they can from outside parliament. Some aspire to form government, on their own or in coalition with other parties.

Most third sector organisations do not participate directly in politics, but, it is claimed, help to underpin or sustain democratic politics by being the "elementary schools of democracy", in the words of Alexis de Tocqueville describing the United States 170 years ago. They are the places where ordinary people learn some of the basic arts of organising, where they learn how and when to trust strangers, where they gain the confidence to express their views and to participate in the wider political system.

Sometimes, when people think about these various contributions to the political system, the third sector is referred to as civil society, or, perhaps more accurately, as the major

component of civil society. Social movements for the most part consist of or are built around, third sector, mostly nonprofit organisations.

The third sector has been receiving increasing scholarly attention internationally over the past twenty years. This attention has come from different disciplines and each discipline tends to view it through a particular frame, from a particular angle. Economists and lawyers tend to view third sector organisations as a particular type of firm. The dominant, United States approach focuses on the behavioural effects of the nonprofit distribution constraint, though European economists, who are more interested in cooperatives give the solidarity motive and democratic governance more emphasis as explanatory variables. For the most part, US research focuses on the larger nonprofit organisations –on the large social service providers, hospitals, art museums.

Political scientists and sociologists tend to focus on voluntary associations, some of which, in their federated form are also quite large. In US political science there is a research tradition animated by de Tocqueville, that manifested itself (in the 1960s) in the work of Almond, Verba et al (including a young Robert Putnam) on the importance of voluntary associations to strong democracy, and more recently Nye, Verba and others exploring the importance of voluntary associational membership to political participation. *Voice and Equality. Civic Volunteerism in American Politics* (1995) is a landmark here.

More recent research interest is configured around the reemerged concept of civil society. Empirical research on civil society has tended to be carried along by the greater interest in social capital, but in both, the contribution of nonprofit associations to building social capital, trust, democracy and political participation is always central, although also contested. In the US, social movement research seems not to have been much affected by these developments, though in Europe links have developed between social movement researchers and those working on the social economy (the French and European Union term for third sector). Third sector organisations (as voluntary associations) play a role in a couple of other strands of American political science, such as those researching common pool resource problems (eg Elinor Ostrom) and those with an economic bias who argue too many interest groups get in the way of good democratic government. Only from the latter perspective are third sector organisations seen as probably a bad thing.

Despite having a large and historically important third sector, there has been little sign of similar research interests in Australia. Rather what we have is patchy work on political parties, unions, some social movements; work that is largely uninformed by an interest in organisational questions (how such organisations begin, recruit members, are sustained, are governed) and for the most part uninterested in the wider organisational context, in related research and in wider debates. As a result, any generalisations based on their findings are often hard to formulate.

Topics That Should Interest Political Scientists

There are four aspects of Australia's third sector and its intersection with the wider political and governance system that should hold some interest for political scientists. One focuses on the third sector as a major provider of services in a number of fields where the government is committed to ensuring access to services by all Australians. These include education, health and community services. Here it is the mechanisms by which governments work with these organisations that deserve attention. A second focus deserves to be the role of third sector organisations in mobilising interests and influencing government. A third topic is the contribution that Australia's third sector organisations make toward encouraging political participation. Finally, the appropriate policy response of governments to the third sector is worth exploring.

To turn to the first topic. Australian governments spend about \$10 billion annually in payments to nonprofit organisations. To this could be added tax revenue foregone as a result of the various tax exemptions and concessions enjoyed by the different parts of the sector, including deductibility of certain donations. Whether all of these exemptions and deductions really can be classed as tax expenditure is open to debate. At all events, no one in government has ever thought it important enough to estimate what these might cost (my own estimate is that it is probably a bit under \$1 billion). The arrangements surrounding the direct payments are important enough to deserve study, anyway.

In researching relations between governments and the third sector service providers, it is important to recognise that there has been very little privatisation or contracting out of these services in Australia (and what there has been such as employment services can be matched with examples of nationalisation by some state governments of large nonprofit networks). This is one case where applying the conventional international academic wisdom to Australia can significantly mislead.

What has happened is that government support for nonprofit providers of various services (schooling, community services and health services accounting for 80 per cent of it) has grown as the demand for those services has grown as a consequence of population growth and population ageing. Grants to nonprofit schools are the single largest expenditure item and the arrangements for these have changed little since the settlement shaped by Peter Karmel in the early years of the Whitlam government. In other areas, there have been significant changes in the way governments support nonprofits in providing services. Over the past thirty years they have moved from grants that had increasing conditions imposed on them, to the present purchase of service, quasi market, contract regime. Along the way, some Commonwealth government funding programs moved to resemble a voucher type of payment, which arguably creates a more effective and "genuine" market, but those administering these arrangements did not understand where they were going and now embrace the conventional "purchase of service" rhetoric.

These changes have never been justified and never been explained to the third sector and have been fiercely resisted by large segments of it. They encourage competition between nonprofits. They thus discourage cooperation and networking between nonprofits, one of their supposed strengths, and also discourage networking with government officials. They have meant that for-profit providers are encouraged to compete for government

contracts, competition which would be more extensive if governments really did want to create genuine markets. However, governments generally use (and abuse) their monopsony power as the sole purchaser to pay below a sustainable price, forcing nonprofits to draw on other resources (donations, volunteers, low wage staff) to provide the service. The embrace by governments of the purchaser provider construction and the accompanying mantra of focusing on outcomes has not been accompanied by any lessening of control by traditional bureaucratic methods. In Mark Considine's words, governments have created "market bureaucracies".

These developments deserve more research and analysis than they have received. Their consequences should be analysed and alternatives that have less downside consequences proposed. Certainly, the present funding regime will restrict any moves to the kind of network form of governance that Rod Rhodes has written about.

Government officials and ministers talk of partnership with the nonprofit sector, but the relationships that they construct bear no resemblance to partnerships – the contracts they write are designed to shift all risk to the service provider and apply almost no constraints on the government. They are grossly unequal and in the view of independent lawyers, are generally unconscionable. They are inflexible and discourage any possibility of system-wide learning. They use intellectual property law to prevent any form of advocacy by the funded organisations.

Yet to change these practices will require a re-examination and modification to one of the core components of responsible government, Australian style, namely the idea that government officials must pre-specify activities to be funded and require the performance of those activities and no others (even if it is clear that sought for "outcomes" for an individual or group might be better achieved in some other way). Current funding arrangements may make sense for some types of services but governments currently apply them to all fields, often with absurd consequences.

The second topic concerns the role of third sector organisations in interest aggregation, representation and advocacy. This is the area traditionally covered by research on interest groups and social movements. If we survey the way the third sector interacts with government to articulate the views of different interests or to advocate policy change, we can see at least four distinct groupings of third sector organisations. First there are political parties, those third sector organisations that register with the Electoral Commission and stand candidates in elections. Only three of these currently have any chance of getting members into government, but others find it a handy way to attract public attention to particular issues and policy proposals. Then there are those organisations formed specifically to represent the views of their members to government, and sometimes to the wider public. There are probably few of these, though they include some of the community sector peak organisations that Marion Sawer has written about, organisations funded by governments to bring to it the views of disadvantaged minorities. Most of the traditional interest groups fall into the third group, organisations that provide a range of services to their members (collective bargaining, legal representation, insurance, education, and so on) as well as representing their interests to government.

These include unions and business and professional associations. Their members are often other organisations, frequently competing businesses. Finally, there are a few large third sector organisations; mainly churches and nonprofits providing community services that from time to time seek to intervene in the public debate, either in their own direct interest or on behalf of disadvantaged groups.

Most attention has been paid to those that were successful and focus on the policy outcomes of their successes. We need to know a lot more about how they work as organisations – how were they formed, how do they attract and retain members and other resources, what strategies do they pursue with governments (and what factors determine which of these are successful), how do they renew themselves (if they do), in response to changing circumstances. There is a good deal of interesting overseas research on these topics that I have not seen replicated in Australia. For example, the research testing Mancur Olsen's economistic assertion that such organisations are a sign of irrationality – which explores why people join such organisations, has not led to similar explorations here. The related assertion that there are far too many such eruptions of irrationality which privilege certain elites and make it difficult to govern for the mainstream has received some airplay here, but never been specified and tested. Theda Skocpol has recently explored (and regretted) the decline in the United States of mass membership federated advocacy associations and their replacement by professional lobbying organisations, some with mass membership but for whom membership means newsletters in return for annual payments, and others that rely entirely on foundation support. Australia seems to have had relatively few of the former (the RSL springs to mind) and not many of the latter (our weak foundation sector helps explain that). It is an issue that deserves some exploration. The explanation may lie in the encompassing role of the mass political parties (till their recent decline). Certainly the perceptive Keith Hancock, in the late 1920, thought that our class based political parties had replaced or weakened the associational networks that de Tocqueville found in the United States at an equivalent period in its development.

A third area to explore is the contribution made by third sector organisations to political participation. Verba et al make the strongest version of this argument, in their massive 1995 study (above). It is that poor and disadvantaged Americans are as likely to participate in the political system as are educated white middle class, if and only if they are active in voluntary associations – usually trade unions or churches. But a good deal of research has been done to explore how this effect takes place (in associations people learn organising skills, they learn to trust others and the art of compromise, they learn about the wider political environment and they gain confidence) and which sort of third sector organisations are most likely to have such an effect. I know of no such work here. What work there has been done on social capital in this country largely ignores any political effects from associational membership.

The study of democracy in third sector organisations would pay some benefit. It could throw interesting light on the attitudes to democracy among Australian's generally (recall that almost 70 per cent of us belong to at least one association). My sense is that Michel's work on oligarchy would be a good starting point. Although in theory

democratically governed, most associations are oligarchies. Frequently this is a consequence of the difficulty of finding people prepared to take responsibility for directing the organisation, and thus for its continuing existence. But when another group emerges to contest elections, those in power generally use whatever means they can to keep them out (the NRMA is only the most dramatic example of this trend). The role of the regulator in these affairs would also pay scrutiny. Arguably, it is inappropriate to have ASIC regulate large nonprofits. State and territory associations' registries regulate smaller associations but are under funded and do at best a cursory job. They are burdened by requests to intervene in disputes within associations that are finding it difficult to handle the responsibilities of democracy. Could they be encouraged to develop regulatory approaches that would help these associations fulfill de Tocqueville's claim for them?

Finally, political science might usefully concern itself with the appropriate policy response to the third sector. Governments in Australia spend a lot of time and money monitoring the business economy. Economics has given them an understanding of the business economy and a range of policy tools for ensuring it remains healthy. But despite its importance (economically, socially and politically), governments spend almost nothing monitoring the health of the social economy or third sector. They do not understand it and as a result, often inadvertently damage it. Governments encouraged demutualisation, on the grounds that the discipline of the share market would generate efficiencies (the AMP story, and others, gives the lie to that claim). Yet government agencies continue to urge that large member-serving nonprofits (such as registered clubs) be converted to investor owned firms. Forms of incorporation for third sector organisations are a jumble. They are regulated either as if they were public companies or hardly regulated at all. Their rationale and thus the purpose for regulating them are not understood. Their tax treatment entirely lacks any coherence or informing principle.

In this regard, Australia stands somewhat apart from comparable countries such as the United Kingdom and Canada, where there are emerging whole of government mechanisms for understanding and working with the third sector. It is difficult to see Australia following suit.

Government disinterest in the third sector seems matched by a relative disinterest among political scientists. The two observations may be related. One could also note that despite the importance of economists in Australian governments, they are generally not aware of the considerable economic literature in the United States and Europe on the third sector, either. It may also be a question of scale. We are after all, still a small country; people in a particular academic discipline can research only a limited number of issues. However, the selection of those issues seems to be shaped by a particular interpretation of government and politics in this country, one that gives greater importance than is warranted to government in the governance of this country, and, consequently to political parties and the electoral process.

These are matters for discussion.