The creation of investor-owned health care companies in the 1960s stimulated much policy debate and empirical research about ownership form and organizational behavior. Interest peaked in the early 1980s, when it appeared that these companies might dominate the health care system, a prospect that no longer appears likely. An ironic residue of the attention raised by for-profit health care has been questions about not-for-profit health care organizations. Underlying current debates regarding such topics as tax exemptions and unrelated business income are some fundamental theoretical and empirical questions about the role of nonprofit organizations.

Burton Weisbrod, a professor of economics at the University of Wisconsin, has worked on these questions for more than a decade. *The Nonprofit Economy* builds upon ideas that he first put forward in an essay in *The Voluntary Nonprofit sector*, which he edited in 1977. The field of health care has been fertile in generating policy issues regarding nonprofit status, and the presence of both nonprofit and for-profit organizations makes this a fruitful arena for testing certain hypotheses on organizational behavior.

Weisbrod reminds us that there is a much broader context by providing documentation of the entire nonprofit sector; by seriously considering the question of why different sectors of the economy tend to be the province of either for-profit, nonprofit, or governmental organizations; and by couching his analysis in a general theoretical framework out of which testable hypotheses about the behavior of different types of organizations can be generated. Inadvertently, the book also provides evidence of the limitations of economic analysis in conveying an understanding of the behavior of nonprofit organizations.

**Characteristics.** For Weisbrod, the key defining characteristic of nonprofit organizations is the prohibition on distributing their assets or surpluses to those who control the organization—the “nondistribution constraint,” in the words of economist/lawyer Henry Hansmann. Weisbrod explains the presence of nonprofit organizations in any sector of the economy as the result of economic forces and the limitations of the for-profit and governmental sectors. His argument goes as follows.

The private, for-profit market, which efficiently meets certain types of consumer demand, does not meet the demand of those who lack economic means to participate in the marketplace, does not operate efficiently in providing services for which consumers cannot detect quality differences, and is not suited to the provision of public goods. These types of market failure may be corrected by government, which has a variety of tools with which to provide or encourage provision of services that are inadequately provided by the private sector.

Nonprofit organizations may develop for a number of reasons. Some are formed for
mutual benefit, some for charitable purposes. Government may choose to use nonprofit organizations to provide certain services that are difficult or expensive to monitor. However, in more general terms, Weisbrod sees nonprofits as a response to both market failure and the limits of government. He suggests that nonprofit organizations are a response to consumer demand for services that cannot be provided efficiently in the for-profit market and for which governmental services are too homogeneous—"nonprofits are useful in providing collective goods when consumer demand is heterogeneous."

Weisbrod is particularly interested in goods with important attributes that are hard for consumers to monitor. Consumers may find it difficult to buy certain goods or services knowledgeably because key information is hard to come by (for example, whether a nursing home provides tender loving care and whether a medical procedure is really needed). In some cases, consumers may be poorly situated to know whether services that were provided were of the proper quality. In these areas, consumers may be willing to use a less efficient provider in exchange for the crude form of consumer protection that is provided by the nonprofits' nondistribution constraint.

The theoretical consequences of the nondistribution constraint are a degree of inefficiency and inattention to economically rewarding behavior. It is worth noting—although Weisbrod does not—that the empirical literature on hospitals provides virtually no good evidence to support the efficiency hypothesis.’ This may be due to the structure of incentives that have characterized hospital payment until recent years.

Much of Weisbrod's book teases out of the implications of his economic analysis—particularly regarding the possible consequences of the nondistribution constraint—for the behavior of nonprofit organizations. Much of this analysis consists primarily of a delineation of the incentives, but in a few cases, hypotheses that follow from the analysis of incentives are tested empirically.

The book also includes chapters that document the size of the nonprofit sector, analyze (more in theoretical than empirical terms) determinants of charitable giving and volunteer labor, and review the policy dilemmas (such as unfair competition with tax-paying organizations) raised by nonprofits' generating revenues through sales.

**Hypotheses.** The chapter called "Are Nonprofits Really Different?" demonstrates Weisbrod's creativity in devising empirical tests of hypotheses drawn from his theory. Using several diverse data sets from healthcare, Weisbrod finds support for several hypotheses regarding ownership differences. Hypothesizing that for-profit nursing homes will be more likely than nonprofit nursing homes to raise prices in the face of excess demand, he finds that nonprofits are indeed more likely than for-profit homes to maintain waiting lists, an alternative to rationing by price.

Hypothesizing that nonprofit facilities will be more likely than for-profit facilities to make information available on "hard-to-monitor attributes," he finds evidence that relatives of residents of several types of nonprofit custodial facilities are more likely than their counterparts in for-profit facilities to be aware of the periodic patient assessments done by the facilities. He also presents evidence that in a sample of Wisconsin nursing homes, proprietary homes were much more likely than church-related nonprofit homes to sedate residents. (Sedatives can help reduce more expensive labor costs, but at the expense of quality.)

Finally, to test the hypothesis that for-profits perform comparatively poorly on attributes that are difficult for consumers to monitor, he analyzes data on family members' satisfaction from the national Survey of Institutionalized Persons (1976). Although the data do not conform perfectly to his hypothesis that the difference in satisfaction would be smaller for new residents than for long-term residents, he nevertheless finds support for his argument that nonprofits give greater emphasis to those aspects of quality that are difficult for the market to detect. He also reports evidence from Wisconsin that consumer complaints from nursing homes come disproportionately from the for-profits.
Each finding has possible alternative explanations, since there is evidence (which the analysis does not fully control for, although Weisbrod introduces whatever controls he can) that for-profit and nonprofit nursing homes serve somewhat different markets (for example, Medicaid patients are disproportionately in for-profit homes). The strength of the findings comes from their consistency and the fact that they confirm a series of hypotheses drawn from a coherent theory.

Policy recommendations. In the concluding chapter, Weisbrod offers a series of policy recommendations. Although these are provocative, unfortunately little evidence is presented to document the problems that the recommendations purport to correct, and no assessment is offered regarding likely consequences of their adoption. For example, he calls for prohibition of “interlocking managements” of nonprofit and for-profit firms because they present an opportunity for abuse.

Adoption of this recommendation would have numerous, dramatic consequences. For example, only people who are not gainfully employed or that are employed by nonprofit or governmental organizations might be able to sit on the boards of nonprofit organizations, thereby cutting organizations off from an important pool of managerial experience and fund-raising potential. Hospitals and educational institutions might have to divest any activity that did not fit within their nonprofit charters, perhaps making certain services less convenient and more expensive for patients and students and cutting off income sources that may enhance socially beneficial activities.

Weisbrod does not comment at all on the possible effects of this recommendation, other than to say that it would reduce the likelihood of certain abuses. His evidence that such abuses are a serious problem consists of two examples that, in his words, “illustrate the potential for abuse.” One is a food bank on whose board sat executives of large corporate food processors and retailers; the potential for abuse lay in the fact that these board members might have a stake (because of tax reasons) in having the food bank accept their donations.

The second is of an association of boat owners whose founders also founded a for-profit firm to which the nonprofit allegedly steered business. Weisbrod also notes the accounting manipulations that such arrangements can facilitate. Although abuses clearly occur among nonprofits, Weisbrod does not explain why he believes them to be so serious as to outweigh the negative consequences of his recommendation.

Other dramatic recommendations—replacing deductions of charitable contributions with tax credits for donations to “approved nonprofits,” replacing the Internal Revenue Service as the principal regulator of the nonprofit sector—are also offered with only minimal explanation of the problem to be corrected and little or no analysis of the incidental undesirable consequences that might follow from their adoption.

The Nonprofit Economy is an engaging and very readable economic analysis of a form of organization that has been difficult for economic theory to handle. It is a useful source both of information and of stimulating hypotheses. Weisbrod demonstrates that economics can help explain the behavior of nonprofit organizations. Clearly, however, the analysis of economic incentives does not yield a fully satisfying understanding of the behavior of nonprofit organizations. Weisbrod’s emphasis on incentives to explain nonprofits’ behavior-concepts such as values, mission, altruistic goals, and community service can hardly be found in the book—may account for his recurrent concern with abuses of the nonprofit form to disguise profit-making motivations and his inattention to the question of the positive obligations for which nonprofit organizations might be held accountable. A convincing account that conveys an understanding of nonprofits in positive terms—not just as a response to the failures and limitations of the for-profit and governmental sectors—is yet to be written.

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