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# **The American and the French Third Sectors: a Comparison, Recent trends during the “Millennium Boom”, and the Impact of the Crisis**

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## **Summary**

After having stated some definitions and specified the legal and tax status of nonprofit organizations in France and the USA, this paper begins by comparing the scope of the American and the French third sectors, their structure and resources, using data from the Johns Hopkins Comparative Nonprofit Sector Project. It explains the differences between the two sectors, which are considered to follow the Liberal Anglo-Saxon and European Welfare Partnership ideal-types found in “social origins” theory. Secondly, the paper highlights the evolution of the two sectors from 1995 to 2007. It stresses the reinforcement of the specific features of third sectors, and their path dependency, even if some trends are the same in both countries. Finally, the paper tries to identify the impact of the financial crisis, the economic recession and new social issues facing both third sectors.

## **1- Introduction**

In 1840, Alexis de Tocqueville noted that “Everywhere that, at the head of a new enterprise, you find government in France, and a great lord in England, you can be sure to perceive an association in the United States”.<sup>1</sup> More than 170 years later, it is still interesting to compare the Americans and the French in their relationship to the government and their ability to form associations to cope with social issues. America was and is still a democracy, but when Tocqueville wrote, France was not. Of course a real democratic republic has been set up since the authoritarian *Monarchie de Juillet* (1830-1848) in France. However, associations, which are so intimately mixed with democracy according to Tocqueville, were slow to multiply and grow because they were repressed under the authoritarian regimes that periodically interrupted the history of the French Republic. It was only in 1901 that freedom of association was obtained, later than in other developed countries. The Law of 1901 defined an “association” as an organization linking freedom to associate and the prohibition of sharing out profits. That is why the French nonprofit sector is more recent than the American one, despite a more distant historical background, stretching back to the Middle-Ages. The sector has mainly developed since the 1960s and 1970s, rapidly catching-up the third sectors of other democratic and developed countries.<sup>2</sup>

In the following comparison, the term nonprofit institution (NPI) is used, as a more neutral, less legal word than association. It is also more universal and has therefore been adopted by

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<sup>1</sup> Author’s personal translation of “Partout où, à la tête d’une entreprise nouvelle, vous voyez en France le gouvernement et en Angleterre un grand seigneur, comptez que vous apercevez aux États-Unis une association”.

<sup>2</sup> For a fuller history, see Archambault (1997 and 2001).

the system of national accounts (SNA93 and its revision, SNA 2008), which gives the following definition:

“Non-profit institutions are legal or social entities, created for the purpose of producing goods and services, whose status does not permit them to be a source of income, profit or other financial gain for the units that establish, control or finance them. In practice, their productive activities are bound to generate either surpluses or deficits but any surpluses they happen to make cannot be appropriated by other institutional units.”<sup>3</sup>

The Handbook of Nonprofit Institutions in the System of National Accounts (UNO, 2003) gives more detail to this definition and makes it operational: “the nonprofit institutions sector (NPS) includes all entities that are:

- organizations, that is institutionalized to some extent;
- private, that is institutionally separate from government;
- non-profit distributing, that is not returning profits generated to their owners or directors;
- self-governing, that is able to control their own activities;
- voluntary, that is non-compulsory and involving some degree of voluntary participation.”<sup>4</sup>

In concrete terms, the NPS in France has mainly two legal statuses: associations and foundations provided that they fulfill the five preceding conditions.<sup>5</sup> Associations do not have to incorporate, as in US; they are simply declared nearly free of charge at the *Préfecture*, the seat of local government in each *Département*. That is why there are a host of grassroots associations in France, while independent foundations are harder to create and hence far fewer: less than 2000.<sup>6</sup> Associations and foundations are presumed to be nonprofit and the tax authority has to justify any decision to tax them.

In the USA, the Internal Revenue Service (IRS) determines if the corporation is nonprofit and therefore tax-exempt, based on documents submitted to it. The NPS includes public charities and private foundations, registered by the IRS as 501(c)3 organizations and other organizations registered as 501(c) 4 to 7. Public charities have a charitable aim, that is: “Religious, Educational, Charitable, Scientific, Literary, Testing for Public Safety, to Foster National or International Amateur Sports Competition, or Prevention of Cruelty to Children or Animals”. Few foundations are operational, with the same aims as public charities; most of them are grant-giving. The main resource of both foundations is the income generated by their endowments, while public charities have no endowment. Other NPIs are centered on members’ interests, such as labor unions, health management organizations, advocacy groups

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<sup>3</sup>SNA 2008, para. 4.83 ; see also Chapter 23.

<sup>4</sup>UNO (2003), para 2.11. These five criteria must be realized simultaneously. They are specified in paras. 2.12 to 2.14.

<sup>5</sup>In the French NPI satellite account (Kaminski, 2006), associations represent 92% and foundations 3% of employment in the NPS. Other bodies are mainly religious organizations, political parties, labor unions. Conversely, some associations are not NPIs: because they are for-profit (gambling clubs for instance), because they are funded and fully controlled by the government (AFPA that is the Association for adult training), or because they run compulsory social protection schemes (AGIRC and ARRCO, two complementary pension schemes) .

<sup>6</sup>The legal status of foundations in France is very recent, dating back only to 1987 and 1990. Since 2003, legal statuses have multiplied and been simplified, while tax deduction is higher. That is why the creation of foundations has been more numerous since 2003.

and social and recreational clubs. Public charities and private foundations can receive tax deductible donations, which member-oriented NPIs cannot.

The present comparison between the American and the French third sectors begins with a presentation of both sectors as they were in 1995. Their scope, structure and resources are compared using strictly comparable data from the Johns Hopkins Comparative Nonprofit Sector Project. The differences between the two sectors are also set out, on the basis that they follow the Liberal Anglo-Saxon and European Welfare Partnership ideal-types of “social origins” theory (Salamon, Anheier, 1998). Secondly, the evolution of the two sectors between 1995 and 2007 (what may be termed the “Millennium Boom”) is highlighted, and the reinforcement of the specific features of the third sectors, their path dependency (Nelson and Winter, 1983) are stressed, even if some trends are the same in both countries. Then, the paper tries to show the impact of the financial crisis, of the economic recession and of the new social issues on both third sectors. Of course empirical data exist for Part 2, but they are not strictly comparable and they are not yet available for the most recent developments. So, qualitative surveys and expert opinion are used as sources here. The paper concludes on the respective resilience of the American and the French third sectors

**2. The American and the French Third Sectors at the End of the 20th Century: Liberal versus Partnership Ideal-Types**

The Johns Hopkins Comparative Nonprofit Sector Project initially noted the invisibility of the nonprofit sector in national accounts, because NPIs are either split in the various institutional sectors or omitted. One objective of the Project was to remedy this invisibility and that is the reason why data is used here from Phase 2 of this Project, in order to have solid comparable data for basis of the comparison (Salamon, Anheier *et al.* 1999). In Phase 2, data was gathered for 37 countries, using 1995 as the benchmark year. For this year, the economic weight, structure and sources of income of both third sectors are presented and compared here. Then, this economic data is examined through the interpretative framework of social origins theory, completed for Europe in a previous paper (Archambault, 2009)

**2.1 A comparison of the scope, composition and resources of the American and the French third sectors, in 1995**

The economic weight of all NPIs, as previously defined in France and the USA, is given in **Table 1**. However, only those organizations hiring employees are included, because of the lack of data for very small, grassroots organizations with no paid employees. Cults and religious organizations are omitted for the same reason, in most countries. Yet, the measurement of voluntary work compensates the first omission and Sub-Section 2.2 below stresses the importance of the religious dimension in both countries.

**Table 1: The economic contribution of the NPS, in France and the USA, in 1995**

	France	USA
<b>FTE<sup>7</sup> Paid Employment</b>	960 000	8 555 000
<b>% of total paid employ</b>	4.9%	7.8%
<b>Total population</b>	60 900 000	296 600 000
<b>FTE Volunteers</b>	630 000 <sup>8</sup>	4 995 000

<sup>7</sup> FTE for Full-time equivalent

<b>Operating Expenditure (\$ million)</b>	57 000	502 000
<b>GDP (\$ billion)</b>	1 570	7 342

Source : Salamon and associates, 1999 and OCDE

In absolute terms, the American NPS is the largest in the world and nearly ten times the size of its French counterpart: or about twice as large as the French sector if population size is taken into account. In relative values, the gap narrows because the ratio employment/population and the GDP are higher in the USA than in France. However, the gap remains large. In both countries, the NPS is a major employer and women provide the bulk of its labor force, as is usually the case in service industries. Only current spending is taken account, as data on capital expenditures is not reliable. As a result, the contribution of the NPS to the GDP of each country is understated.

**Table 2** shows the distribution of the NPS employment by industry, according to the International Classification of NonProfit Organizations (ICNPO), a classification adapted to the kind of services provided by NPIs which is consistent with the international classification of industries, ISIC.

**Table 2: Structure of the NPS, in France and the USA, in 1995  
(percentage of FTE Paid Employment)**

<b>Field of activity (ICNPO)</b>	<b>France</b>	<b>USA</b>
<b>Culture, sports and recreation</b>	12.1%	7.3%
<b>Education and research</b>	20.7%	21.5%
<b>Health</b>	15.5%	<b>46.3%</b>
<b>Social Services</b>	<b>39.7%</b>	13.5%
<b>Environment</b>	1.0%	0.0%
<b>Local Development, housing</b>	5.5%	6.3%
<b>Civic and advocacy organizations</b>	1.9%	1.8%
<b>Philanthropy</b>	0.0%	0.3%
<b>International activities</b>	1.8%	0.0%
<b>Professional organizations</b>	1.8%	2.9%
<b>Total</b>	100.0%	100.0%

Source : Salamon and associates, 1999

In both countries, fields that are considered as social protection, that is health and social services, are responsible for the largest share of economic activity by the third sector. But, in the USA, health is by far predominant, hiring nearly half of all paid employees in the sector, while in France the focus is on social services, with 40% of paid employment. This fundamental difference will be explained later. "Education and research" comes second in both countries with a similar weight: one fifth of total employment by the NPS. But in France,

<sup>8</sup> This figure has been recalculated for the duration of voluntary work in the survey by INSEE, 2002. In previous publications, this figure relied on a survey that overestimated the voluntary time monthly. Conversely, the percentage of volunteers in the sample is the same in both surveys. This error indicates the necessity of methodological standardization in measurement (Archambault and Prouteau, 2009).

it includes mainly primary and secondary schools, working under contract with central government, which pays teachers' salaries and imposes the curricula. These private schools have low fees and 95% of them are Catholic, though they accept children of other religions or no religion. Conversely, in the USA this field of activity includes mainly private universities, ranging from the most famous of the Ivy League (like Harvard, Princeton, and Yale), to less prestigious institutions: fees are high and research is more important than in France. Regarding other groups, museums and orchestras are mainly NPIs in the USA, while culture sports and recreation associations have mushroomed in France everywhere. The latter are small and are run mainly by volunteers. Community development, civic and advocacy NPIs have the same weight in both countries, while professional organizations are more widespread in America. Environmental and international aid NPIs had a virtually no economic activity in the USA in 1995, and so less than in France. The opposite is true for philanthropic organizations: at that time there were no large grant-making foundations in France, except the *Fondation de France*.

What are the resources of NPIs in each country? **Table 3** compares the breakdown between public and private resources, in both countries. Resources coming from the public sector mix grants without a direct counterpart and contracts or reimbursements that are sales to the public sector. Private resources are dues, fees (either equal at least to the cost, or less than the cost of services, and which are variable according to the purchaser's income), unrelated sales, and income generated by the endowment. Besides these privately-earned resources, many NPIs receive individual donations and legacies, as well as diverse forms of corporate gifts and sponsorship, but such resources are far more voluminous in the USA than in France. However, in both countries these philanthropic resources are additional income, not core resources despite their symbolic role, and they are concentrated in a limited number of NPIs.

**Table 3: Sources of Income of the NPS, in France and the USA, in 1995  
(percentage of total resources)**

	France	USA
<b>Dues, fees and other earned income</b>	34.7%	<b>56.6%</b>
<b>Private donations</b>	7.5%	12.9%
<b>[Total private resources]</b>	[42.2%]	[69.5%]
<b>Public sector funding</b>	<b>57.8%</b>	30.5%
<b>Total</b>	100.0%	100.0%

Source : Salamon and associates, 1999.

Obviously the French NPS gets its funding mainly from the French State (i.e. central government), local governments and the social security system. This is especially the case for the education, health and social services: the other sectors have more diversified resources. In the USA, fees paid by users and other earned income predominate. However, contrary received wisdom, resources coming from the public sector are far from insignificant, constituting up to nearly one third of total income of the third sector, either through research contracts from government, or Medicare or Medicaid reimbursements for health services. The differences in resources, as well as the structure and role of the third sectors are of course related to the kind of relationships which exist between citizens, civil society, the state and the market.



## 2.2 The American and French third sectors: are they really Liberal Anglo-Saxon and European Welfare Partnership ideal-types?

The theory of “social origins” (Salamon and Anheier, 1998) explains differences between third sectors by their deeply-rooted historical backgrounds, by the relative forces of social classes, and by the relationship which is dominant between the state and the society. NPIs have also been a source of competition in the historical conflicts between state and church, which still determine the present relationships between these institutions.

**Table 4** presents four ideal-types of the relationships between NPIs and the welfare state, by crossing two main criteria: the relative dimension of the third sector and the relative level of social expenditure funded by the public sector.

**Table 4 The four ideal-types of the theory of social origin**

<b>Dimension of third sector</b>	<b>Low</b>	<b>High</b>
<b>Public social expenses</b>		
<b>Low</b>	<b>Statist</b> Japan ; developing countries	<b>Liberal</b> Anglo-Saxon countries
<b>High</b>	<b>Social-democratic</b> Nordic countries	<b>Partnership or corporatist</b> Continental

Of course, this typology of third sectors is close to Esping-Andersen's one of Welfare States (Esping-Andersen, 1990). The relationships between the Welfare State and third sector are based on substitution in the liberal and the social-democratic models, while they are complementary in statist and partnership models. It is considered here that the American third sector is an example of the liberal model and that its French counterpart is representative of the European partnership model.

In both countries, nonprofit institutions emerged before the Welfare State, which began in the 1930s and developed mainly after 1945 when a comprehensive social security system was set up in France. In America, the Great Society of President Johnson (1965) provided a narrower social protection system to a more limited share of the population. Since the Middle Ages, Catholic charities or friendly societies linked to guilds provided some social services in France, as everywhere in Europe. In the USA, as Tocqueville noted, the Americans had a tendency to self-help and associations emerged to solve all collective issues and to mitigate the absence of government during the conquest of the West. This tradition, intimately linked to democracy, has lasted. American nonprofits fulfill functions that are mainly dependent on the public sector in France: half of hospitals and the most famous universities are private nonprofit organizations in the US, while the bulk of these institutions are public in France. In the USA, nonprofits are in competition with the public sector in tertiary education, and with for-profit corporations in health. In France, the government is a partner for the nonprofit institutions in the fields of health, education, social services and community development, according to the principle of subsidiarity: the government does not provide a personal service if an institution closer to the beneficiary can do so, but it regulates and pays for services. That is why public funding is the main resource of finance for the NPS in France, as in most European countries, whereas fees predominate in the US.

The scope and the specificity of social security systems shape the relationship between the state and the NPS: the liberal model is characterized by the principle of individual responsibility and limited, means-tested assistance, as applied by the law. In the corporatist ideal-type, social welfare is extensive, with benefits accorded on a professional basis, respecting the hierarchy of social classes. Opposing legal systems – Common Law in the USA and heritage of the Roman Law in Continental Europe – are at the root of many differences. The main difference concerning the NPS lies in the fact that associations and organizations of some other legal statuses are presumed to be nonprofit, whereas in America organizations are incorporated and they have to provide documentary proof that they do not distribute profits, in order to be qualified as nonprofits.

These differences are deep rooted in the historical background of both countries. America's shorter history is marked by pioneers who provided for their collective needs through community associations, contributing to a lasting reluctance towards interference by Federal government. France has a longer history, and the NPS dates back to medieval charities or guilds. During the 19<sup>th</sup> century, modern forms of mutual societies and associations were linked to the rise of the working class movement, while the American NPS is independent of the labor union movement.

This longer history has led French NPIs to manifest many ideological references which have no equivalent in America: utopian socialism,<sup>9</sup> social Catholicism, many variants of Marxism, including the Trotskyism, Solidarism,<sup>10</sup> and even Liberalism. In the USA, the reference to the individualist Puritan tradition is still very deep in many NPIs, because they were born in a period of intense competition among religious denominations, even if they have become secular since their origins. These different ideologies also explain the contrast in volunteering, which is more charitable or religious in the USA, and more politically militant as well as secular in France, or devoted to expressive or sociable activities.

### **3. The Recent Trends of the American and French Third Sectors during the Millennium Boom and the Crisis**

The evolution of the NPS in both countries during the 1997-2007 decade is first analyzed here. This task relies on heterogeneous and less comparable data than the preceding work. For France, two surveys on associations in 1999 and 2005 (Tchernonog, 2007) and the satellite accounts of NPIs in 2002 (Archambault and Kaminski, 2009) are used. The analysis for the USA draws on the Nonprofit sector Almanac and the first results of the Johns Hopkins Project, Phase 3. Due to the lack of comparability the observed trends are more qualified than quantified. Then the impact on NPIs of the financial, economic and social crisis which has struck both countries since 2008 is discussed. Of course most empirical data were not available when this paper was written and this latter analysis relies on qualitative organization surveys and on experts' reports.

#### **3-1. Trends of Nonprofit Institutions during the Millennium Boom**

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<sup>9</sup> In France, Saint-Simon, Fourier, Proudhon were part of this tradition: for Great Britain, Owen and the Fabian movement may be cited among others.

<sup>10</sup> Solidarism was the official ideology of the Third Republic when the Law of 1901 was passed. It insists on the interdependence of the human beings (solidarity) and the fact that new-born children inherit of the labor of past generations. So they have to give back to future generations. Durkheim theorized this trend.



**Some trends are the same in both countries.** In both countries, the period from 1995 to 2007 was a time of economic growth with growing income inequalities. But, this growth was slower in France because of slower innovation trends and less progress in productivity than in the US. The growth was less inequitable in France as well, because of the redistribution of income through the large system of social protection, which reduced income inequalities.

In both countries, new NPIs incorporated or declared each year mushroomed. In the USA during the decade of 1995-2005, the number of registered NPIs grew by 23 percent, while their resources rose by 54 percent, and their assets by 77 percent: compared to GDP growth of only 35 percent (Nonprofit Almanac, 2009).<sup>11</sup> Similarly the growth of employment was higher in the third sector than in the whole economy: in France in the years 1993 to 2002, paid employment in the NPS grew by 38 percent, while growing by only 16 and 17 percent respectively in for-profit enterprises and central government (Tchernonog, 2007). This difference is similar, if less dramatic, in the USA. The consequence is that the share of the NPS in total employment grew from 6.3 percent in 1997 to 8.1 percent in 2007 in the USA, and from 3.7 percent to 7.4 percent in France.<sup>12</sup> However, despite the methodological caveats, France is no doubt catching up.

During this period, there was a tendency in both countries to contract out health and social services from government to NPIs or for-profit companies, through tenders. Therefore, competition among NPIs and normal companies was increasing. On both sides of the Atlantic, NPIs became more professional, without any reduction in voluntary work. On the contrary, the growth of the number and the percentage of volunteers in the adult population has been steady in France, as **Table 5** shows, while volunteering also grew in the USA from 1996 to 2005. But the number and the percentage of volunteers did decline in 2006 and 2007.

**Table 5. The Evolution of Volunteering in France and the USA**

	1990	1993	1996	2002	2005	2007
<b>France:</b> volunteers, millions	7.9	9.0	10.4	12	14.2	
volunteers/adult population	<b>19%</b>	<b>20.8%</b>	<b>23.4%</b>	<b>26%</b>	-	
<b>USA:</b> volunteers, millions					65.3	60.8
volunteers/adult population			<b>22%</b>	<b>26.7%</b>	<b>28.8</b>	<b>26.2</b>

Sources: France – 3 Surveys LES/ISL/JHCNP for 1990, 1993 and 1996; INSEE 2002; Tchernonog 2007 for 2005; USA – Current Population Survey, 2003, Bureau of Labor Statistics, 2009.

<sup>11</sup> The author could not find similar data for France. However the trend is the same.

<sup>12</sup> This high progression in France is partly an artifact, because the first figure comes from the Johns Hopkins Project and the second one from the data INSEE on social economy, Associations, FTE, 2007. They are not strictly comparable.

In both countries the number of hours devoted to volunteering per year is extremely varied, with an average of 99 hours in France and 138 hours in the USA.<sup>13</sup> The social and demographic characteristics of volunteers are rather similar: the percentage of volunteers in the adult population rises strongly with the level of education, more so than with income. It is higher for the employed than the unemployed, and it rises with age, with a maximum between 35-55 years old, decreasing thereafter. However volunteering is higher for women in the US and for men in France, as in most European countries. That is due mainly to the different orientation of volunteering: in France, nearly half of volunteer time is devoted to NPIs working in culture, sports and recreation, in which men are dominant. Then come social services. In contrast, in the USA, one third of volunteer time is devoted to religious organizations in which women are dominant, followed by education and community development (INSEE 2002; BLS 2009).

Conversely, **other trends reinforce the specificity of the American and French third sectors**, and the path dependency of their institutions has been analyzed by evolution theory (Nelson and Winter, 1982). The predominance of health NPIs reinforces in the USA, accounting for up to 59 percent of the resources of reporting charities in 2005 (Nonprofit Almanac 2008). In France, this was the case for social service NPIs. Similarly, resources follow a path dependency. In America, the percentage of commercial resources (fees, sales, and investment income) increased up to 58 percent, in 2005.<sup>14</sup> This trend continues the trend to retrenchment of the Welfare State, begun during the Reagan Presidency, and which obliged NPIs to become more commercial. Conversely, in France the partnerships with public powers have multiplied and the share of public funding in NPS resources has increased slowly, and stagnating at the end of the period with a shift from central to local governments.

Another example of the reinforcement of the specificity of each country can be found in the stability of donors' behavior. During the period observed, tax incentives to giving were nearly steady in US, whereas they increased dramatically in France.<sup>15</sup> However, the percentage of donors and the amount of money donated increased much more in the USA than in France, despite tax deductions that are now among the highest in the world. The increase of giving in France is just equal to the cost of increased tax credits, and the French are as mean as ever. This lower propensity to give by the French, compared to the Americans, can be explained by a different conception of the role of the State which is seen as having a monopoly on the general interest, according to the Jacobin tradition inherited from Rousseau (Rosanvallon, 2004).

Correspondingly, foundations, which were much more numerous in USA, multiplied during this decade of unequal growth, as young, new billionaires stemming from the "dot.com boom" created their own foundations, the most emblematic of course being the Bill and Melinda Gates Foundation. The assets of all foundations grew rapidly with the stock market, as did the grants they delivered to other NPIs. In France, foundations created by the rich are still few, even if they have increased since the Aillagon Law in 2003. However, corporate foundations

<sup>13</sup> The median is 50 hours in US and maybe lower in France. This difference between mean and median is a consequence of the asymmetric distribution of volunteers. In France, two thirds of volunteers are occasional and one third regular, who put in most hours of work. The percentage of regular volunteers is higher in the USA.

<sup>14</sup> In 2005, the percentage of public sector was 29% (20% of contracts or reimbursements, linked mainly to the Medicare and Medicaid programs and 9% of grants) and private gifts were 12% (Nonprofit Almanac, 2008).

<sup>15</sup> In the US, individual donations to public charities and foundations are wholly deductible of taxable income. The maximum tax advantage is 38%, tax applicable to the upper share of income and deductions are limited to 50% of taxable income. In France, 50% of donations to NPIs in 1996, then 60% in 2003 and 66% in 2006 were deductible from tax itself, with a limit that increased from 1.25% in 1996 to 20% of taxable income in 2003.

have multiplied since 2003, as have three new forms of foundations initiated by this Law (scientific cooperation, university and community foundations).

The path dependency can be found also in ideologies. The Bush (Jr) Presidency strongly favored faith-based NPIs, through the use of vouchers, in education, health and social services. Evangelical Protestant denominations, often very particularistic, benefited from this voucher system especially. Meanwhile, French NPIs became more and more secular. Even the oldest ones with a charitable Catholic past have wiped out this tradition in their messages to a French society, which is ever-more removed from religious values. Conversely, partnerships between NPIs and central and local governments became more and more official and formalized in charters, compacts, multiannual contracts and conferences devoted to association life. At the same time, venture philanthropy has introduced the culture of evaluation and results in NPIs in the US. They have to become more efficient, accountable and transparent with better governance. Finally the links between NPIs and cooperatives and mutual societies have strengthened in France, the cooperative banks playing the same role in funding NPIs as foundations do in the US, where the concept of social economy does not exist.

The enhancement of the specificities of each country has consequences on the impact of each NPS on the society. Greater commercial resources of NPIs in America intensify their orientation towards the middle and upper classes, while many associations created in France recently have helped and advocated the cause of people excluded from the mainstream by long-term unemployment or irregular and badly paid work or immigrants without papers, rights, housing and so on.

Do these specificities of each third sector have an influence on their resilience to the financial crisis and the economic recession?

### **3.2. Nonprofit Institutions and the Financial, Economic and Social Crisis since 2008**

The financial crisis of course began in early 2008 in the USA and its destroying effects, especially on employment, stretched out over the years 2008 and 2009. France, along with the whole of Europe followed six months later. Both countries' governments have launched recovery plans to boost the economy, but the program was much larger in the USA than in France, not just in absolute values but also in relative terms. The American recovery program has begun to bear fruit and signs of recovery have been perceptible since the beginning of 2010, while they are none in France. What has been the impact of this financial, economic and social crisis on the NPIs of each country?

Here again, there are **common features** in both countries: the crisis has created huge numbers of new poor because of job cuts unseen at such levels since World War II, and of new waves of homelessness in the wake of eviction or desertion of unpaid houses. On both sides of the Atlantic, these new poor are lengthening lines in front of soup kitchens or *Restaurants du Cœur*. NPIs dealing directly with these problems, as well as many others are facing a scissor effect in coping with such new issues as resources are decreasing, because raising fees is not a solution when faced with insolvent people. Indeed competition among NPIs to attract donations is becoming harder with the increasing costs and decreasing returns of fund-raising. During the early stages of the crisis, public grants or reimbursements were delayed and sometimes suppressed, provoking at best cash flow difficulties, and at worst bankruptcies along with the dismissal of employees, as has been the case for some personal service

organizations in France. Some NPIs, more numerous in the USA than France, have merged with others, working in the same field or area, or are pooling their infrastructure, equipment or human resources. They have also reduced wages and overhead expenses.

Conversely differences remain and make sense: there are still less than 2000 foundations in France, even if they have multiplied since the Aillagon Law of 2003, and if the new legal status of “endowment fund” (created in 2008) may make a great difference in the future, as it has been successful so far. However, the assets of French foundations remain very low compared to their American counterparts and associations have restrictions on their capacity to own interest-bearing capital., excepting those foundations which are recognized as being “useful to the public interest” (*reconnues d'utilité publique*), some 2000. Therefore, the French NPIs have not suffered from the collapse of stock exchanges and financial markets that have struck the large American foundations and public charities: the average loss of the latter’s assets are valued at 25 to 30 percent.<sup>16</sup> This fact has worsened their financial balances and has obliged foundations to be more selective in the choice of the projects they fund. Other NPIs have been obliged to merge, compress their costs and reduce or suppress their programs. Surveys show that museums and orchestras have more difficulties than health or education NPIs, because they rely more on donations and less on public money (Salamon, Geller and Spence, 2009).

However, the recovery program of the Obama administration is helping to restore the financial equilibrium for many NPIs, in 2010. Hundreds of billions of dollars were or will be paid by the federal government in the states that have contracted out many education, health, social and community services, instead of providing them directly. NPIs have benefited of this added public funding. This recent and maybe reversible trend is bringing the American third sector closer to the European partnership pattern. At the same time, volunteers who were less in 2007 and 2008 have come back younger, more numerous and more diverse, following the strong involvement of young people and minorities during the Obama presidential campaign.

Conversely, for the French NPIs the hardest part of the crisis is no doubt to come. The retrenchment of public money paid by central government is no longer being compensated by the regions, the *Départements* or by local communities, all of which also have deficits. Donations are steady despite tax incentives. There is no doubt that the French NPIs are too small and too numerous, and will have to concentrate in the near future. The more counter-cyclical nature of French NPIs, along with the lag with which France is responding to the crisis explain why employment in the NPS continued to grow during the first semester of 2009, while it was decreasing in the rest of the economy and in the American NPS at the same time.

## **Conclusion**

Maybe the American third sector is more reactive and resilient than its French counterpart. It is closer to standard businesses in its legal status and in the origin of its resources. The sector is more concentrated and professional, more oriented towards the middle class, except for its “compassionate” fringe, and it is more open to technological innovation, while its behavior is also more pro-cyclical. The French NPS is more dispersed, more effervescent, more secular and less traditional. Its behavior is counter-cyclical because it is deeply embedded in the public employment policy. It detects new social issues and proposes innovative solutions to

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<sup>16</sup> On the other hand, French NPIs did not benefit from the increase of the stock market during the Millennium Boom...

cope with these new needs for which the government often later takes more complete responsibility. Moreover, it claims a role of co-builder of the general interest, with the French State resisting the present resurgence of Jacobin tendencies, whereas in the USA, the third sector is by construction in charge of the public good. Therefore, the French NPS is not simply lagging behind America's, rather it reflects a more complicated historical background and different ideological traditions.

What will be the impact of the health system reform in the USA? Will its health NPIs be more oriented towards the working poor? Will they build a tighter partnership with the states or the insurance companies? What solutions will be found in France to the durable retrenchment of public funding? Will the governance of NPIs be strong enough to take unpopular decisions that are unavoidable? These are some of the challenges facing nonprofit institutions in these two democratic countries. No doubt that they will find new, original solutions, to quote Tocqueville again: "For men to remain civilized or become so, they have to develop and perfect the art of association, to the same extent as the equality of conditions grows." (Tocqueville, 1840, Book II).<sup>17</sup>

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<sup>17</sup> Author's personal translation of "*Pour que les hommes restent civilisés ou le deviennent, il faut que parmi eux l'art de s'associer se développe et se perfectionne dans le même rapport que l'égalité des conditions s'accroît* »

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