

# Crowding out in the third sector

The term "crowding out" refers to the fact that increasing government activity tends to reduce the resources available for private-sector activity, thus "crowding them out." It's just another way of stating the favorite lesson of economists, "There's no such thing as a free lunch."

When governments spend a lot of money, they either tax citizens, thus reducing incomes, or borrow money thus increasing the cost of borrowing, and the private sector finds its ability to consume and invest is compromised.

The opposite situation, sometimes known as "crowding in," is when declining government involvement stimulates private sector activity.

A fascinating and relatively new area of study is "crowding out" in the non-profit sector.

For millennia, we find voluntary organizations engaging in all kinds of charitable endeavors. How is the scope of these activities influenced by government? When the government starts a welfare program, do community chests close their doors? When benefits are cut back, do private funds stream in to take their place?

A press conference held Wednesday by Professor Eliezer Jaffe of Hebrew University called attention to this issue. Professor Jaffe, who occupies a chaired professorship on the voluntary sector at Hebrew University, is a strong believer in "crowding in" in the Israeli economy.

The announcement for the press conference points out that the government provides fewer services than previously, and then states that, "Many organizations were founded in order to fill the

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vacuum in those areas where the government does not provide services or as a response to unmet needs of the needy public."

And on his website, Jaffe writes that, "This stream of volunteer, non-profit welfare activity in Israel seems to increase with hard times, almost as an instinctive Jewish response to hard times."

Actually, most research studies done on this topic to date have shown a relatively modest degree of crowding in or out in the voluntary sector. Comparatively, large Federal aid programs in the 1930s in the US seem to have reduced private giving by a significant amount, but still only a small fraction of the aid given. Most evidence from abroad suggests that the increase in voluntary activity owes more to the "demand side," meaning increased income and free time due to prosperity, than to the "supply side," meaning more need for public involvement.

If the same applies in Israel, the vast increase in "third sector" activity would be attributed to economic growth more than to budget cuts. (Of course these may ultimately be correlated, but I am referring to the direct effects, not the indirect ones.)

Carrying out a comparable study in Israel faces a number of obstacles. The most daunting is that it is difficult to obtain figures on the extent of private donations. For reasons quite beyond my comprehension, the Treasury releases only "estimates" of the amount of deductible contributions. These estimates are of the broadest nature, rounded off to the

nearest ten million shekels. And the deductible contributions are themselves likely only a small fraction of total Israeli contributions.

According to Professor Jaffe, there are no authoritative statistics on the total amount of contributions to Israeli non-profits. Another factor is the large fraction of funding for Israeli charities coming from abroad, which means that the impact of changes in the local scene may be a case of the "tail" which wags the dog of foreign contributions.

Whatever the reasons for its growth, there is no doubt that the Third Sector (non-profit organizations) in Israel is now sufficiently large, mature and well-organized to deal with many of the challenges facing the country, and can serve as a reliable partner to government in the provision of many vital services. (Many, but not all. Based on my experience and research, basic social welfare is not a service which the non-government sector can provide adequately or efficiently, and it must be kept in government hands.)

So I join with the organizers of Wednesday's press conference in calling for the government to acknowledge the importance of the Third Sector in Israel and take serious and immediate policy steps to improve the ability of this sector to function and to forge effective cooperation with government and business.

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