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ABSTRACT. By starting from the consideration that non-profit organizations cover a significant redistributive function beside that of governmental agencies, the paper questions why government prefers to finance *via* transfers private entities likewise lucrative and non-lucrative entities rather than produce these goods directly.
By generalizing the Hansmann (1986) theory we propose a "make or buy" approach in which the choice among three different ownership regimes (governmental, non-profit and for-profit) providing services in public benefit oriented sectors is affected not only by costs reduction (X-efficiency) but also by the level of transfers (degree of "universalism") decided at a political level.

1. Introduction

The rise of non-profit organizations in modern economies has fostered the development of a huge theoretical as well as empirical literature centered on explaining the rationale of the existence of this kind of organizational mode within numerous markets of goods and services.

By starting from the seminal works of Weisbrod (1975) and Hansmann (1980) several scholars have then attempted to deepen and widen the analysis of non-profit organizations. Roughly speaking, two alternative approaches have been proposed: the first, in continuity with the works of Weisbrod and Hansmann, focused on the need for non-profit organizations from the side of consumers (demand side analysis) (Ben-Ner and Van Hoomissen, 1991; Ben-Ner, 2002; Chillemi and Gui, 1993); the second, by focusing on a wide taxonomy of different entrepreneurial behaviors, showed that non-profit organizations can have different objects than profit maximization and that alternative behavioral assumptions can properly explain the existence of non-profit firms (James,1990; Rose-Ackerman, 1986; Young, 1986).

The demand side approach, the stream of research probably more explored and deepened, focused on the ability of non-profit organizations to be "more efficient" than other organizational arrangements in responding to some specific failures in markets whose structural characteristics are long far from the perfectly competitive structure. It is the case of the Weisbrod's provision of "public goods" where non-rivalry and non-excludability play a significant role (see also Ben-Ner e Van Hoomissen, 1991), and that of "asymmetric information" between producers and consumers proposed by Hansmann who applied in the case of non-profit organizations results achieved by Arrow in a preceding work of 1963.

In the case of public and quasi-public goods the justification for a non-profit provision of goods and services derives from the mechanism of rationing set by the for-profit firms (free-riding problem) and the governmental provision (median voter supply). In the case of asymmetric information, instead, non-profit organizations, by means of the "non-distribution constraint", survive in the market because they represent that special contractual design able to reduce the agency costs generated by post-contractual opportunism between firms and consumers. They would establish an institutional contract able to safeguard the interests of the latter. As showed by Weisbrod (1988), nevertheless, the public good approach can be encompassed in the asymmetric information approach whose it should be seen just as a special case.

In the Weisbrod-Hansmann approach (that we can label as the theoretical benchmark of this literature), the non-profit firm represents that particular institutional design that warrants the rise of the allocative efficiency within a given industrial sector. In other words, the non-profit solution determines a greater degree of satisfaction of consumers' preferences by comparing it with the governmental and for-profit performances.

Nonetheless, as suggested by Borzaga (2001), two elements seem to be overlooked by this literature. The first relies on a scarce attention devoted to the internal structure of the non-profit institution that still remains an unexplored black box; the second refers to the fact that this literature has quite completely overlooked the evident fact that non-profit organizations also hold a relevant "redistributive function", that is, they are set up for and operate with the explicit goal of modifying the distribution of income when the current one is considered as not consistent with social preferences (Borzaga, 2003, p. 39). This aim is particularly distinctive for non-profit organizations working within public benefit oriented sectors where, as we will see, beside the need for efficiency society considers also the need for equity. The paper aims to analyze this second issue by deepening the first one.

The work is organized as it follows. First, we present a brief introduction to the theory of property rights as proposed by Hansmann (1986) that, by starting from an analysis of "internal" and "external" agency problems, seems to be a comprehensive approach in order to qualify the concept of "efficiency" (allocative and productive) within the analysis of institutions; second, we introduce the role played by social preferences in choosing the level of equity and that of efficiency by proposing a definition of equity as "universalistic principle" to be introduced into the Hansmann framework in order to explain the rationale of the redistributive role played by non-profit organizations.

2. Property rights and organizational efficiency

As we have seen above, in accounting for the relative efficiency of different kinds of organizations in a given market, the Hansmann-Weisbrod approach refers just to those factors that are outside of the organization. By utilizing a biological metaphor we can indeed state that external factors are representing the environment into which the institutional organism tries to adjust. Nevertheless, the relative efficiency of an institution compared to another relies also on its internal characteristics, that is, in this special context, on the way the property rights are distributed within its stakeholders.

The link between property rights distribution and organizational efficiency is one of the most discussed and controversial issue of modern economics. Traditional economic theory, in fact, by focusing just on the exchange of goods and services has given an almost exclusive importance on the properties of utility and scarcity while completely overlooking the matter of fact that contractual parties do not exchange just material objects, but also property entitlements, that is, rights to benefit from goods and services just to the extent specified in the contractual terms (Moe, 1984).

In the current definition, a system of property rights defines a method for assigning to single individuals the authority of choosing, with regards to specific goods, any possible utilization within a certain, not forbidden utilizations (Alchian, 1965). Since the utilization of a given resource made by an individual is likely to conflict with the utilization of another resource made by another individual, any socio-economic system adopts a specific legal system in order to protect individual freedom. It makes

possible to observe a behavioural code shared by all the owners of property entitlements. Clearly, in order to make this system workable, it needs an external authority warranting and enforcing this legal order.

For a long time property rights and their social distribution have been recognized as mere behavioral constraints. Nevertheless, Alchian (1965) stressed that they have to be taken not just as legal bounds, but rather as mechanisms structurally influencing the outcomes of an economic organization adopting them. For the author, for each different assignment of property rights among social actors corresponds a different institutional performance satisfying the needs expressed by the social preferences defining and assigning them. Indeed, different modes to allocate and control resources induces different and alternatives systems of incentives or penalties able to modify the behavior of organizations even when they pursue the same objectives. Following this interpretation, hence, organizational efficiency and property rights assignment are strictly correlated.

2.1 Institutional alternatives and efficiency: the Hansamann theory

In the work titled *The Ownership of Enterprise* Henry Hansmann (1986) presented a comprehensive analysis of the comparative efficiency of different institutional alternatives. In continuity with the contractualistic theory of the firm proposed by Alchian and Demsetz (1972), the author describes the structure of an organization as a *nexus of contracts* explicitly or implicitly established among different agents belonging to, or just in some relations with, the firm (the so-called "stakeholders"). This set of agents (workers, costumers, sellers, etc.) participate in various ways to the allocation of the resources produced by the institution by means of a greater or lower level of effort, the pressure toward a greater quality, the level of anticipated capital, and so on (Harris and Raviv, 1978).

Each stakeholder brings with him specific interests sometimes conflicting with those of other stakeholders. For instance, in the case of a firm providing social assistance services, a dependent worker could operate opportunistically making assisted people unsatisfied, whereas the owner would desire a greater effort in order to gain clients. In another case, a group of shareholders could reduce the financing toward a company whose managers' performances signal an inefficient management.

Hansmann distinguishes different enterprise's typologies on the basis of which type of stakeholder owns the right on the "control" and the "benefit" of the entrepreneurial activity[1]. According to these attributes the author proposes the following taxonomy of existing institutional modes:

1. *Corporation*: in the corporation the owner coincides with the capital lender. An example is a stock company where the shareholders (i.e., the capital lenders) are the owners. They appropriate the operating surplus in the form of dividends (Fama and Jensen, 1983b).

2. *Cooperative*: in the cooperative the owner are the direct beneficiaries of the entrepreneurial activity. Each member (a worker, in the case of a workers-managed coop, or a consumer, in the case of a consumers-managed coop) anticipates a part of the capital, is rewarded as a worker on the basis of a prefixed salary, finally participates to the operating surplus division according to the percentage of the anticipated capital (Fiorentini e Scarpa, 1998).

3. *Non-profit*: in the non-profit the owner could be the capital lender (for example, a donor) or could coincide with a group of founders-members. Nevertheless, the presence of the non-distribution constraint over the surplus, does not allow owners to be the direct beneficiaries of the activity. No specific group can appropriate the surplus that hence assume the attribute of a "public good". The beneficiaries becomes the community whose welfare will increase without bearing costs.

[1] In this literature the beneficiary is the person (or the group) appropriating the operating surplus (or deficit). The surplus is defined as the residual part when all the costs are subtracted from the whole revenues.

4. Public enterprise: in the public enterprise the owners are the direct beneficiaries and they coincide with the citizens. The public enterprise too is subjected to a non-distribution constraint over the surplus that becomes, as in the case of the non-profit, a public good (Orzechowski, 1977).

Moreover, each of these institutional typologies present some form of separation between "property" and "control". More generally, the person or the group owning the firm is not the same making decisions (Fama and Jensen, 1983a). The owners of each type of institutional form develop some specific form of collective choice in order to establish the group forming the administrative board. The mechanism of the "voting right" is the prevailing one. In business corporations, for instance, each stockholder can vote according to his number of stocks; in cooperatives it is in use the "one person, one vote" principle; in public enterprises is the political process that fixes the control.

For any given establishment of the rights over property, each institutional arrangement will face greater or lower difficulties to fit in a specific socio-economic environment. Hansmann highlights that the problems met by an institution have a twofold nature: 1) problems having an external nature, and 2) problems having an internal nature. The first ones refer to the features characterizing the external environmental conditions that an institution has to address; the second ones refer to specific (internal) contractual features belonging to an institution. According to these two kind of problems it is possible to define two different typologies of costs:

1. *market contracting costs*: referring to the costs that all the stakeholders that are not the owners of the firm have to bear in order to eliminate o reduce losses caused by the presence of "market imperfections" in their relation with the firm;

2. *ownership contracting costs*: referring to the costs that the stakeholder owning the firm has to bear in order to eliminate or reduce losses arising from the presence of specific "agency relationships" in managing the firm.

The first kind of costs arise when the conditions for a perfect competitive market do not hold. This is the case of existence of market power, public and quasi-public goods, externalities, asymmetric information, legal or technological barriers, missing market, few numbers and non homogenous goods. Other things equal, assigning (for each of these cases) the property of the firm to the stakeholder able to reduce, "more than the others", the costs associated to these imperfections can produce a comparative advantage than assigning it to one of the remaining stakeholders.

The second type of costs is better known in literature as "coordination costs" or "cost of governance". These costs are as much high as diversified and conflicting is the composition of stakeholders in relation to the stakeholder owning the firm. The main coordination costs that an owner has to address are:

1. *Costs of collective decisions*: they are costs depending on a greater or lower ability in implementing programs, developing strategies and harmonizing conflicting interests.

2. *Costs of bearing risks*: any economic activity induces some risks. The risk of failure and exit from the market is the most important. Each firm will try to individuate which stakeholder will be more suitable to assume responsibility and risk according to his risk propensity. The existence of individuals with different risk aversion and the allocation of risk across the various managerial functions is a decisive element affecting managerial efficiency.

3. *Costs of monitoring*: in hierarchical relations characterizing the internal structure of an organization problems associated to "moral hazard" (opportunistic behaviour) are frequent. Each organization will have a comparative advantage by structuring specific "incentive

mechanisms" allowing for reducing losses derived from opportunistic behaviour in the "supervisor-subordinated" relationships.

4. *Costs of entrepreneurship*: entrepreneurial ability is a scarce resource. The greater its level, the greater the managerial efficiency will be. One of the elements considered as more important is the ability to communicate to external subjects (the market) the quality of its own entrepreneurial capacity (signalling). In the case of non-profit organization, for instance, this is a central point in order to attract donations.

By starting from this taxonomy Hansmann defines the "most efficient" institution as that in which the ownership is assigned to the stakeholder *minimizing* the sum of the cost of market contracting and the costs of ownership contracting. Indeed, by indicating with *I = [1, 2, · · · , i, · · · , n]* the set of the *n* stakeholders, we can define the stakeholder *j* as that providing the most efficient assignment of the ownership, when:

$$C_j^{\,O} + \sum_{i \neq j} C_{ij}^{\,K} = min$$

where $C_j^{\,O}$ is the cost of ownership for the stakeholder *j* and $C_{ij}^{\,K}$ is the cost of market contracting for the stakeholder *i* when the stakeholder *j* owns the firm.

If the market freely operates the most efficient form of ownership should prevail. This is the central normative conclusion of the school of property rights[2]. Nevertheless, it seems interesting to ask whether the observed institutions are actually the most efficient ones. Roughly speaking, it would be so just in the case in which social preferences give maximum importance to efficiency. Actually, beside considerations of efficiency social preferences give weight even to considerations of equity (Tobin, 1970; Sen, 1999, 2000). This aspect affect considerably the relative weight of the different kind of institutional modes in many economic sectors but especially, as we will see, in "social sectors" as education, health, social assistance and others.

3. Equity and efficiency in social sectors

One of the most problematic issues arising from the emergence of private subjects within markets of goods and services of some significant social impact is the difficulty of combining efficiency and equity. Considerations on equity and efficiency are central elements to be considered in the implementation of any type of public spending programs and, more generally, of any modification of the institutional setting of certain economic sectors (Atkinson and Stiglitz, 1980).

Historically, the "welfare system" that has prevailed in western countries (especially in Europe) after the Second World War has no doubt devoted a large attention on equity criteria sometimes to the detriment of preoccupation about efficiency. The causes are well known: in the early after-war period European countries were in a serious and dramatic phase of reconstruction of their socio-economic fabric and several social problems as unemployment, poverty and social exclusion rapidly appeared. In such a situation the central task of the European governments was to provide citizens with an equal opportunity of accessing to universal rights as life, health, education and so on. It is the well-known period characterized by the so called "universalistic services" aimed to warrant an equal distribution of universal rights especially for that part of the community widely unable to express a paying demand because of a too much low level of income. This period was characterized by two distinct aspects: a standardized provision of many social goods and services on one hand, and a great role of

[2] The term "efficient" is used by Hansmann as *"a situation in which there is no alternative arrangement that could make any class of patrons* [stakeholders] *better off, by their own subjective valuation, without making some other class worse off to a greater degree"* (1986, p. 23).

governmental activity in their production and financing on the other. This system is sometimes labelled as the "universalistic welfare system", a term widely used especially in the political stage (Ascoli and Ranci, 2003).

Nevertheless, as countries went out from this critical situation manifesting gradually higher level of income and social well-being, the universalistic welfare system entered in a sort of crisis of identity: an increasingly part of the citizens began to show the need for both a greater level of provision and more sophisticated and specific typologies of goods than those provided by the public-standardized production. This has moved the production from an homogenous toward an even more complex and heterogeneous type of social goods and services that traditional governmental provision was unable to furnish. This is partly explained by the models proposed by Weisbord (1975) and James (1990) in their seminal works on the emergence of non-profit organizations: unsatisfied (or heterogeneous in terms of preferences) citizens demand for a greater (or different) level of goods and services because the "standardized" (median-voter) level furnished by the government fails to meet quantitatively or qualitatively their preferences. This is, in few wards, the main achievement of the "government failure" theory in explaining the emergence of non-profit organizations: non-profit organizations would provide additional and/or more heterogeneous goods and services overcoming the governmental failure to meet diversified paying demand thank to their specific contractual characteristics (in particular, the "non-distribution constraint").

Nevertheless, as suggested by Defourny and Borzaga (2001), the demand side approach fails to recognise at least two significant aspects concerning non-profit organizations: the fist refers to the role played by entrepreneurship in non-profit organizations, the second relies on the "redistributive" role played by them. While the fist one is already having an increasing attention in the literature by means of the so called "supply side" theory, little attention has been paid on the second point yet.

Indeed, the observed facts show that, beside the governmental one, also the non-profit provision takes into account universalistic (i.e., redistributive) aims. For example, many Italian charities provide several services (canteen services, psychological support, etc.) at not significant prices, i.e., prices that do not cover all the costs needed to furnish the whole service. In general, as it happens in the case of many governmental provisions, a consistent part of the whole non-profit production does not pass through the application of a charge but, on the contrary, it is furnished "for free". Statistically, this component is called "non-market production" and, as showed by Cerulli (2003), it is a consistent part of the production of both non-profit and governmental organizations.

In what fallows, we'll take it as a measure of "equity" (in the sense of "universalistic principle") of an organization's provision and we will try to characterize it both empirically and economically. However, before to go into this direction it seems useful to call in mind what we mean in this context with the term "equity" as "universalistic principle". We define the "universalistic principle" (at an organizational footing) as the *capacity of facilitating the access of citizens to consume a given good or service, "independently" on their income level* (Tobin, 1970). The previous example referring to the charity's canteen fit well to this definition.

In the next section we will try to explain why and how non-profit organization promote universalistic aims in the provision of numerous social goods and services.

4. The redistributive role of non-profit organizations

Observed facts show that non-profit organizations, as well as governmental institutions, provide goods and services at not significant prices. Statistically, it means that these institutions present a non nil level of non-market production. Indeed, the total value of production can be divided in two parts: "market production" and "non-market production" (United Nations, 1995):

Total production = market production + non-market production

Table 1 shows the composition of total production in terms of the share of market production and non-market production for non-profit, governmental and for-profit organizations in four branches of economic activity that we could label as "social sectors" (i.e., education and research, health and social works, activities of membership organizations and finally, recreational and cultural activities).

			Market Production	Non-Market Production
Public benefit oriented	**Education and Research**	**NPO**	0,65	0,35
		FPO	1	0
		GOV	0,05	0,95
	Health and Social Works	**NPO**	0,95	0,05
		FPO	1	0
		GOV	0,07	0,93
Mutual benefit oriented	**Activities of Membership Organizations**	**NPO**	0,32	0,68
		FPO	1	0
		GOV	0,53	0,47
	Recreational and Cultural Activity	**NPO**	0,40	0,60
		FPO	1	0
		GOV	0,60	0,40
Total		**NPO**	0,64	0,36
		FPO	1	0
		GOV	0,11	0,89

Table 1. Share of market production and non-market production for non-profit (NPO), for-profit (FPO) and governmental organizations in social sectors. SOURCE: Cerulli (2003).

The table distinguishes between sectors within which organizations are principally oriented to public benefit and sectors in which organizations are constituted for mutual purposes (i.e., benefit of the members setting them up). Just organizations oriented to public benefit have a genuine redistributive function, that is, by definition, an universalistic purpose in the provision of goods and services. Organizations oriented to mutual benefit, instead, are created by definition just for the well-being of their members so that they serve a "selective" rather than "universalistic" purpose. In what follows we will focus clearly just on the first kind of organizations.

It is easy to observe that for the two sectors classed as "public benefit oriented" ("education and research" and "health and social works") the level of governmental non-market production is the highest followed then by that of non-profit organizations and for-profit organizations respectively[3]. This regularity holds also in more disaggregated data (Cerulli, 2003).

We have, now, to explain two facts concerning the "public benefit oriented" sectors: the first is why non-profit organizations possess here a non-market production (that is, why they cover a universalistic role), and the second is why this level is lower than that exhibited by governmental organizations.

4.1 Social preferences and financing in public benefit oriented sectors

Any community has a specific preference in term of the degree of universalism to be implemented in specific sectors. This is particularly evident in the case of sectors such as education, health, social assistance, charity and so on. Consider, for example, the case of drugs. In many countries national health systems provide numerous drugs for free, or at not significant prices. Clearly the remaining part of a drug's price not paid by the citizens is paid by the whole community under the

[3] This regularity does not hold for the two sectors classed as "mutual benefit oriented" ("activities of membership organizations" and "recreational and cultural activities") where non-profit institutions have a greater level of non-market production compared to governmental organizations.

form of a "transfer" (in its turn financed by an underlying system of taxation). The level of the transfer, i.e., the level of universalism on drugs provision, is decided at a political level as a product of a political process involving some form of voting mechanism. We can represent in a very simplified scheme this process:

1. the community vote and elect a political coalition;
2. the political coalition becoming the majority decides the level of transfer for drugs;
3. the citizens pay just the remaining part of the total drugs price: total price minus transfer.

According to the coalition's political program the community expresses its preferences on universalism for drugs, social assistance, education and so on.
In the case of financing the transfer toward governmental, as well as to non-profit organizations the community operates in the same way. But beside element of equity (degree of universalism) also aspects relating to efficiency are taken into account.
Consider, as example, the financing of a specific health-care service. We could interpret the process of selecting the level of its transfer as in the previous case:

1. the community vote and elect a political coalition;
2. the political coalition becoming the majority decides the level of transfer for that specific health-care service.

The political coalition (representing the community) has now to choose by which kind of institutional arrangement the service should be provided. In other words, once established the level of universalism according to its values, the community has to select the most efficient way of providing the whole service. By generalizing the Hansmann approach presented above, we can describe the choice of the community as minimizing the sum of costs of market contacting and costs of ownership contracting, i.e., as an efficient *ex ante* solution[4]. Consider just the following three alternatives:

1. providing the service by a governmental agency;
2. providing the service by giving the transfer to a non profit organization;
3. providing the service by giving the transfer to a for-profit organization;

Put in this form the problem seems to mimic exactly the model proposed by Hansmann as a "make or buy" decision. Nevertheless there is a not negligible difference: in this case the level of the transfer (that is the level of universalism chosen by the community) affects the efficient solution, i.e., a solution that is optimal when the level of the transfer is high, could be suboptimal when the level of transfer decreases. This depends on the fact that the system of incentives induced by the different institutional modes changes when the level of the transfer changes. In public benefit oriented sectors, as we have seen, higher levels of the transfer are empirically associated to a public ownership, whereas lower levels to a private one (non-profit or for-profit).

How can we account for it? It seems useful to compare the contractual characteristics of the three kind of agencies in relation to the level of the transfer.

4.2 Contractual attributes and level of transfers

In order to explain the relation between the level of transfer and the institutional choice it seems useful to analyse the contractual features of the three kinds of organizations. Indeed, we can imagine a sort of principal-agent relation between the community and the institution instructed to

[4] See also McManus (1975).

provide the social service (Fama and Jensen, 1983b). We can consider five institutional attributes affecting the relative efficiency of the three organizations that seems of worth to discuss in detail:

1. *property design (private vs. public)*: it is generally suggested that a regime of private ownership produces more incentives toward an efficient management of the firm than a regime of public ownership. Alchian (1965) motivates it on the basis of the notion of "risk of failure": private firms are more efficient than public firms because their managers bear directly the risk to be pushed out of the market. In private ownership regime the costs of a bad decision falls directly upon the person taking on it, while in public ownership regime, since the exit from the market is not allowed, managers can continue to take bad decisions without any penalty. It drives toward a less efficient (in the sense of X-efficiency) direction of the firm (*Alchian theorem*).

2. *economic goal (profit vs. output maximizing)*: standard economic theory suggests that private firms generally try to maximize profits (Alchian, 1950). Although operating surplus is in fact the object of many economic activities, non-profit and governmental enterprises generally are not established for this goal. They can have objects different than profit maximization. In particular, since they are establish to produce specific social goods and services some scholars maintain to consider them as output maximizing (James, 1990).

3. *surplus appropriation (distributed vs. not-distributed)*: since the goal of establishing a public or a non-profit firm in social markets is not the usual surplus maximization these institutional forms operate with a "non-distribution constraint" on surplus (or deficit). In the case of a for-profit firm, on the contrary, operating surplus is distributed among the owners of the firm. For non-profit and public enterprises, therefore, surplus takes the form of a "public good". This point has a twofold effect: on one hand it would suggest that public and non-profit organizations have lower incentives to produce positive surpluses, on the other hand, as proposed by the standard literature, the non-distribution constraint would reduce the risk of opportunistic behaviours by becoming an element strengthening the level of "trust" in firms adopting it.

4. *method of financing (market vs. non-market)*: the way in which a firm mainly finances its activity is another element that can affect efficiency and agency costs. A for-profit firm generally finances its activity by prices, loans and stock capital, that is, by means of the market. Public enterprise are principally financed by public transfers (compulsory non-market transfers), while non-profit organizations usually present a mixture of market prices, public transfers and private transfers (donations in cash, in kind or in term of volunteer labour).

5. *political independence:* the relation between the political authorities and the owners and/or managers driving the firm is another central aspect affecting agency costs. Public firms are usually controlled by the political process while for-profit and non-profit firms are generally more independent on it.

Each of these attributes induces incentives or penalties compared to the level of the transfer. Before to argue this point, it seems useful to summarize the non-profit ownership contractual attributes and their economic function. Indeed, according to the previous five attributed we can state that non-profit organizations are[5]:

[5] For a comprehensive approach to the characteristics of non-profit organization in a comparative perspective with other institutional typologies, see the book of Ricketts (2002, Ch. 11).

1. *private*: they bear the risk of business failure, then they have the right incentives to be X-efficient [6];

2. *with non-distribution constraint*: they solve the agency problem (asymmetric information) arising in the "contracting out" with public authorities;

3. *established to pursue ethical goals*: they warrant good social performances because *output* rather than *profit* seems to be maximized;

4. *not quoted on stock markets, involving volunteers and financed (also) by donations*: it confirms their not-for-profit ends and that they are not formed for speculative aims;

5. *politically independent*: the election of their board of directors is independent on the political process (for example, the party in power).

Now, we have all the elements to see what happens when the level of the transfer is relatively high (or relatively low).

High level of the transfer. When the level of the transfer is high the risk borne by the governmental authorities (representing the community) is high. In particular, the risk of post-contractual opportunism generated by an higher level of the transfer increases the agency costs arising between the governmental authorities (elected by the party in power) and the institutional form demanded to provide the service. By starting from this assumption it is reasonable that a higher level of the transfer is more likely associated to a public ownership, a medium level of the transfer to a non-profit ownership and, finally, a lower level of the transfer with a for profit ownership. It depends in fact on the five contractual characteristics enumerated above because each type of organization has a *comparative advantage* over the others on each of them.

When the level of the transfer is very great, the net advantage to be "public" and "non-profit" (public ownership) seems overcome the net advantage to be "private" and "non-profit" (non-profit ownership) or "private" and "for-profit" (for-profit ownership). But why? When the level of transfer is high the community feels the risk of ex-post contractual opportunism as really high. Even if the public ownership is relatively less X-efficient (*Alchian theorem*) it is considered as better than other forms, firstly because it is characterized by a non-distribution constraint signalling non-speculative aims of its activity, secondly because it is directly controlled by the community (managers are elected politically) so that the costs of monitoring are relatively lower than in other forms. The private ownership, even if more X-efficient, induces higher costs of monitoring because of its political independence and, in the case of for-profit firm, speculative aims (profit distribution) weaken increasingly the level of "trust" of the community in this organizational form.

Low level of the transfer. When the level of the transfer decreases, on the contrary, the net advantages of a non-profit ownership increases whereas the net advantage of a public ownership decreases. Indeed, a lower level of the transfer reduces the costs of monitoring (cost of "trust"). The grater X-efficiency of non-profit organizations (compared to public ownership), the presence of a non-distribution constraint, the existence of ethical (output maximizing) purposes (as many non-profit organizations have in their statute), the presence of volunteer labour, the incidence of donations in their mechanism of financing, the impossibility to be quoted in stock market and the prohibition of appropriating capital in case of bankrupt, overcome the "limit" to be private and politically independent. In few words, the net advantage of the non-profit ownership can overcomes that of the public ownership so that a non-profit arrangement could prevail.

[6] For a deeper theoretical analysis of X-efficiency in non-profit organizations see the work of Matthews (1990).

Strongly low level of the transfer. Finally, when the level of the transfer is really low, it is a for-profit ownership that could prevail. The cost of trust is, in this case, really small so that the greater X-efficiency of for-profit firms could compensate their contractual limits (as the distributing returns, the speculative aim and so on). For-profit organizations could appear even in the provision of social good and services because their net advantage could overcome that of the public and non-profit ownership.

It can explain why, for example, there exist hospitals completely driven by a for-profit ownership regime.

Conclusions

How can we account for the existence of a mixed economy in the provision of numerous goods and services of several social sectors as health, education, social services, and so on? How can we explain why government prefers to finance *via* transfers private entities likewise lucrative and non-lucrative entities rather than produce directly these goods?

We suggest that the Hansmann theory needs to be generalized to the case in which even "equity" (in the meaning of "universalistic principle") criteria are to be consider beside "efficiency" criteria. We have proposed a "make or buy" approach in which the choice among three different ownership regimes (as organizations instructed to provide services to the community), that is, governmental, non-profit and for-profit, is affected by the level of the transfer (degree of "universalism") decided at a political level.

We suggest that in order to account for the observed facts we have to link the level of the transfer to the ownership regime attributes. When the level of the transfer change in fact the "net advantage" of a form of ownership over another will change. In particular, within public benefit oriented sectors, high level of the transfer are more likely (and so are as data show) associated to a public ownership, while a lower one with a non-profit or for-profit form.

In this paper we think to have reached two significant goals, one on a descriptive, whereas the other on a more normative level. According to the first, we have tried to shed light on the redistributive role played by non-profit organizations, an aspect relatively little explored by the standard approaches; according to the second, we expect to see an increasing role for non-profit organizations in social sectors as education, health and social assistance as soon as the level of governmental transfers (degree of universalism) will decrease. Apart from the ability of attracting donations privately, hence, the future of non-profit organizations is strongly linked to the transformation of the "welfare state systems" from a standardized-universalistic toward a more heterogeneous-selective arrangement.

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