PRIVATIZATION AND THE THIRD SECTOR OF THE ECONOMY:
A PUBLIC CHOICE APPROACH

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ABSTRACT

Privatization is an important policy objective for many European countries, but there seems to be little progress in the political decision-making on specific privatization programmes. The implementation of these programmes is marked by serious delay.

Many European countries do not have a two sector-economy (public sector-private sector) but a three sector-economy, consisting of the pure public sector, a pure private sector, and a semi-public, non-profit or not-for-profit, third sector in between. In the Netherlands, this third sector is relatively large and it performs many important functions.

The small amount of recent privatization might be explained by the historical fact that many state activities during the last fifty years already have been privatized. Most of the privatization was not to the pure private sector of the economy but to the third sector. This may have happened not for economic reasons (efficiency in resource allocation) but for political-ideological reasons ('pillarization and consociationalism').

In this paper, this hypothesis is tested by empirical analysis of institutional arrangements of the Dutch welfare state. Also, a theoretical explanation is given with the use of public choice theory. Finally, some comparisons will be made with other European countries.
I. INTRODUCTION: THE PROBLEM

Privatization in the Netherlands

Privatization is an important policy objective for many European countries for many years now. In the Netherlands, privatization is one of several means marking the retreat of the State. In 1982, this retreat became an official government policy. The government outlined six so-called 'Major Operations' to accomplish its retreat: Reconsideration (of government expenditure), Reorganisation (of the state bureaucracy), Decentralization (of central government activities), Deregulation (of government regulations of the private market sector), Debureaucratization (i.e., an annual 2 per cent reduction in the size of the civil service), and Privatization (see Namens, 1988; Andeweg, 1989: pp. 117-128). The general motive for privatization is to give a response to the almighty 'Faustian State' (Boorsma and Mol, 1983) or to further a contraction of the extraordinarily large public sector in the Netherlands.

Andeweg (1989: p. 117) points out that within this general motive for privatization three distinct arguments can be detected. In 1980 a Royal Commission on Administrative Reform recommended 'decentralization to the private sector' as a means to reduce overload and to increase administrative efficiency. In 1981 a Civil Service committee was set up to reconsider some government programmes. This committee called for privatization as a means to reduce government spending. Meanwhile the Wagner Commission (a tripartite commission advising the government on economic recovery) recommended privatization as a means to strengthening the market economy. These three recommendations - administrative, budgetary and macro-economic - can be considered as the official motivation for the government's privatization programme, launched in 1982 and continuing on to the present day.

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1 The term privatization was not yet in vogue then in the Netherlands. However, the notion of 'decentralization to the private sector' precisely implied what later on became generally known as 'privatization'.

2 We refer to Andeweg (1989: pp. 117-118) for detailed information about the sources of these committees and the contents of their policy proposals.
In 1986 the Cabinet decided on the basis of various committee's reports to (partly) privatize:

* the technical support services of the police
* accountancy
* the Government Printing office
* maintenance of buildings
* the department of Weights and Measures
* the Pilotage Service
* government management consultants
* the Government Car Service
* the Assay Office
* the Land Registry
* the Flevoland Water Authority
* the Limburg Computer Centre
* the government exhibition service
* IJmuiden harbour

and a few other services. Further studies have been made into the potential for privatization of various other services, such as the Army's Central Film Bureau, the State Lottery, the Foreign Office translation bureau, the Forestry Commission, and midlife training. Many proposals refer to the 'contracting out' variety of privatization. Since few actual decisions have been made so far, few privatization decisions have yet been implemented. Only the privatization of the Assay Office has resulted in the complete termination of government intervention in one sector of the economy. Andeweg (1989: p. 118) estimates that implementation of all the proposals would involve about 10,000 out of 729,000 government employees and 380,000 so-called trend-followers.

However, only very few of all these privatization plans have been decided upon or have been implemented so far. The few privatization programmes that have been carried out have not yielded the administrative, budgetary or macro-economic gains promised by the various committees mentioned above. Hence, these privatization programmes

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3 See for a more or less complete survey of all privatization plans, the government programme of the Cabinet Lubbers-II: Regeerakkoord, 1986. Also see Hakvoort, 1986, for an overview of privatization decisions taken and planned.

4 Trend-followers are employees of non-profit organizations (the third sector of the economy) whose salaries are payed (directly or indirectly) by the government budget. Hence these salaries and the working conditions are linked to those of civil servants. This sector is further explained below.
have been seriously criticized in the Netherlands. The Dutch government's record on privatization is not impressive. The privatization of the Post Bank and Mail and Telecommunications are but the transformation of one State enterprise into three State-owned companies, as the government remains the sole share-holder in the new companies. Moreover, most of the few actual privatizations have been accompanied by new regulations. In this light, some authors even consider privatization as a learning process towards a different form of government intervention (De Ru, 1986: p. 64).

The privatization paradox

Taken together, all this gives rise to the Privatization Paradox: if the public sector is so large, why has the (Dutch) government failed to privatize more? At the surface various answers to this paradox are possible. One answer could be that the government was confronted with a severe and effective opposition to privatization. However, that has not been the case and it still is not. Almost all political parties (except for the Communist Party and the Pacifist Socialists) were and still are in favor of privatization in general. The civil service unions oppose privatization, but the union resistance has not been effective. Another possible source of opposition to privatization might be found in the bureaucracy itself. Most government departments show a lack of enthusiasm, but the Dutch civil service is not mono-

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5 The results of the audits of the newly privatized industries, including the Dutch Pilotage Service, are found in several reports from the Dutch Court of Audit ('Algemene Rekenkamer'). In general, the few government activities privatized so far have been transferred to the market sector. But they are not subjected to market conditions of 'workable competition'. Instead, they have been protected by an artificial monopoly established through certain government measures and conditions. A government induced market monopoly is not only in theory but also in practice worse than both a pure government monopoly and a pure market monopoly.

6 This Privatization Paradox has been formulated and analysed for the Netherlands by Andeweg (1989). Ultimately he comes up with a sociological explanation, whereas in this paper we try to give an explanation based on public choice theory.
lithic\textsuperscript{7}, but characterized by a considerable degree of fragmentation. Certain sections of the bureaucracy oppose privatization, but other sections - especially in the Treasury and in the Department of General Affairs - are very much in favour. Therefore, the general conclusion must be that if privatization is unsuccessful in the Netherlands, it is not because the government has been unable to overcome resistance to it.

Besides resistance, Andeweg (1989: p. 121) mentions the possibility of legal and constitutional problems for privatization. In the Netherlands, many government activities are carried out by decentralized government bodies, i.e. the provinces and the local communities. However, this mixture of centralized and decentralized organization of government activities does not impose legal or constitutional constraints upon privatization, since decentralization and privatization are two quite different things. Decentralization of government activities implies a vertical dispersion of powers to hierarchically lower government levels, whereas privatization of government activities involves a horizontal dispersion of powers to market institutions on the same hierarchical level\textsuperscript{8}.

Andeweg continues his analysis with the statement, that if the solution for the paradox of a large public sector and little privatization is not to be found on the privatization side of the equation, perhaps we should have to look at the public sector itself to find an explanation. That is precisely what we will do in the next section of this paper.

\section*{II. INSTITUTIONAL ANALYSIS OF THE PRIVATIZATION PARADOX IN THE NETHERLANDS}

There has been a rapid growth of the public sector in the Netherlands. The size of the public sector has doubled from 35 per cent of the

\textsuperscript{7} This is in compliance with the key-elements of the economic theory of bureaucracy, i.e. methodological individualism and the atomistic organization-approach as developed by Tullock (1965) and Downs (1967).

\textsuperscript{8} Refer to the distinction between vertical and horizontal dispersion of powers made by Van den Doel (1979: pp. 10-11) in his logical analysis of bureaucracy and democracy as organizational designs for carrying out public policy.
National Income in 1960 to a peak of 70.3 per cent in 1983. Since then it has declined somewhat. More interesting is the composition of the Dutch public sector, in particular the parts of the public sector which have grown since 1960. It appears that the increase is largely due to interest on government debt and to income transfers from the social security system. Programme spending by the government, and in particular by the national government, has not increased very much (see Hamer, 1985: pp. 227-235). When interest payments and income transfers are subtracted, little remains in terms of State participation in companies. The conclusion that there are fewer public enterprises in the Netherlands than in other countries and their share of the national economy is relatively small (Parris, Pestieau, and Saynor, 1987: p. 27) is confirmed by study after study.

Explanations

There are political as well as economic explanations for the small State share of Dutch businesses. One political reason is mentioned by Andeweg (1989: p. 122): when the Social-Democrats were in favour of nationalisation they were out of political power, when they entered government coalitions they had left nationalisation in favour of planning. A second political explanation refers to the segmentation of Dutch society until the late 1960s (pillarization and consociationalism, 'Verzuiling'). The maintenance of some form of stable government in such a divided society required great care to be taken not to overload the centre of political decision-making. Consensual government implied leaving as much substantial decision-making as possible to the pillars themselves. These pillars organized their own interference in socio-economic and private life. They created their own welfare organizations for income maintenance, health care, housing and education, industrial corporations, trade unions, services, banks, etc. (Van Schendelen, 1987: p. 65). We will return to this phenomenon of pillarization later on in this section.

The need for consensual government is sometimes mentioned as an impediment to privatization in other countries. According to Andeweg (1989: p. 122) this is also true for the Netherlands, but only indirectly: consociational democracy was one factor in preventing nationalisation in the past and thus limits the potential for privatization today.
Against this analysis, three counter-arguments can be raised. First, it could be argued that the transformation of State enterprises into State-owned companies is more than window-dressing. Second, actual government divestment of shares could be considered to have taken place listed under an 'investment policy', rather than under the label of 'privatization'. Third, the analysis confines itself to the national level, whereas privatization has been more extensive at the local level. Andeweg (1989: p. 123) admits that there is some truth in all these three counter-arguments and that they provide a valuable correction to his analysis summarized above. However, they do not alter the general conclusion: privatization failed because there was not much to privatize in the Netherlands.

The border area between public and private sector

It would be premature to stop the analysis of the privatization paradox with this conclusion. It is based on a sharp and rather legalistic distinction between the public and the private sector. The borderline between public and private sectors is often blurred in the Netherlands. This makes it difficult to define and measure privatization accurately. In reality, there is large grey sector between the public and the private sector. This mixed sector takes many forms.

The first form consists of the founding of new companies by the government itself in order to prevent the development of a market monopoly and to force private firms to operate under conditions of workable competition. Such individual firms can be classified easily as belonging to the public or private sector. A second form occurs when public and private sector organizations join forces, resulting in 'neo-corporatism'. In the Netherlands neo-corporatism takes the shape of bi- and tripartite institutions in which representatives from the government and private sector organizations co-operate. These institutions of co-operation can not only be considered as a means of government intervention in the private sector, but also of interest.

9 See Andeweg (1989: pp. 122-123 for a brief treatment of these counter-arguments.
group colonisation of the public sector. Their main tasks are public policy advice and regulation (for instance, labour relations).

In a third form of the mixed sector, the government and the private sector organizations remain legally distinct, but in reality they are intertwined. This concerns a Dutch tradition of privatization of public enterprise which goes back to 1918 (De Ru, 1985: passim). Since then, governments have preferred private-law to public-law constructions for all new kinds of government bodies. Andeweg (1989: p. 124) recalls that the legal form of the 'foundation' has become a prominent vehicle for this method of government intervention. He gives the example of the many local swimming pools which are owned by a foundation. Most of the time such foundations are 100 per cent subsidized by the local government, and the governing body of the foundation is largely made up of local councillors, aldermen and civil servants. Legally this swimming pool is in the private sector, but in political-economic reality it is not. These foundations are widespread. They provided a way to decentralise policy-making to the various social groupings ('pillars'). This already has been mentioned above in our explanation of the relative absence of nationalization in the Netherlands.

In the 1970s, these pillars lost most of their political power (see Van Mierlo, 1985). However, their institutions, including the plethora of foundations, still exist and they still rely heavily on government subsidies. When the government reduces, or even stops, their subsidy, the foundation either has to search elsewhere for funding - financial contributions by sponsors or by clients - or it has to be liquidated. Andeweg (1989: p. 124) holds the opinion that this is the order of the day in the Netherlands, but that it is not called privatization, because the foundation was never out of the private sector. Andeweg therefore refers to hidden privatization of a pseudo-private sector. With this conclusion Andeweg's analysis of the

10 It is not necessary to present a short list of the bulk of literature on the neo-corporatist interest mediation in the mixed economy here. It is sufficient to refer to well-known European authors like Schmitter and Streeck. For the Netherlands refer to Van Mierlo (1988).

11 Refer to Van Poelje (1930, reprint 1959), who thoroughly analysed this phenomenon in the Netherlands and who called this construction 'osmosis' in a very expressive manner (see the head-title of his small but influential book on this subject).
privatization paradox in the Netherlands ends. There is however much more to be said about this paradox from the perspective of the large third, non-profit or not-for-profit sector in the Netherlands.

Many important questions remain to be answered. Why did the Dutch government prefer private-law to public-law constructions for new public institutions, starting from 1918 on and accelerating after the Second World War with the expansion of the welfare state? Why did these institutions succeed in surviving the consequences of depillarization in the 1960s and 1970s, and why is their existence endangered by a twofold development in the 1980s? And what consequences will this development have for the future relationship between the pure public sector, the pure private sector and the third, non profit-sector? Answering these questions requires an extension and elaboration of Andeweg's analysis, since his analysis prematurely concludes with the hidden privatization of a pseudo-private sector in the Netherlands.

III. PUBLIC CHOICE ANALYSIS OF THE LOGIC OF INSTITUTIONS IN THE PRIVATIZATION PARADOX

Pacification democracy and its consequences

The political preference for private-law constructions for new public institutions over public-law constructions originated in the Netherlands already after 1918. In 1917, the enduring problems in the political relations between the four important political groups (Roman-Catholics, Protestant, Socialist and Liberal) were solved by

12 Andeweg continues with a short digression on the financial help provided by the Dutch government in the 1970s and 1980s to firms and even complete branches in the private sector of the economy. This government intervention in the economy is not disguised by foundations, but the same phenomenon can be observed. Andeweg discusses indirect government participation in equity holdings and the supply of loans and guarantees to moribund businesses. These participations and loans and guarantees to private firms have declined dramatically in the eighties, accompanied by a decrease of government interference in the operation of these companies. The government has retreated, but this retreat is never classified as privatization because the companies were never out of the private sector. As in the case of foundations, this amounts to a hidden privatization of pseudo-private companies.
constitutional decision-making suggested by the so-called 'Pacification-Committee'. Through the techniques of log-rolling and vote trading between the confessionalist and the socialist parties, two questions were solved: the problem of universal suffrage and the problem of equal public finance of public schools and confessional schools. These problems had seriously divided Dutch politics and society for about fifty years. By vote trading the socialists predominated over the issue of universal suffrage in exchange for equal public finance of schools for the confessionalists.\(^{13}\)

This solution became known as the Dutch Pacification. The Pacification-Committee succeeded by this solution by saving the Dutch political system from the threats of instability and even civil war and ultimate collapse (see Van Mierlo, 1985). Since then, Dutch democracy functioned under the rules of the game set by this constitutional decision-making. This can be considered as the birth of the well-known Pacification Democracy of the Netherlands, combining pillarization in society and consociationalism in politics (See Lijphart, 1967 and 1977). The rules of the game of consociationalism, which ruled Dutch politics from 1918 until the early sixties, were as follows:

1. an 'all party government' by a 'Grand Coalition', containing the most important parties in government;
2. veto power in political decision-making for the various pillars on issues considered to be crucial for them;
3. relative equality (according to the size distribution of the pillars) in the distribution of government jobs, expenditure and subsidies;
4. relative autonomy for the pillars in their decision-making on public issues that belong to their competence, because of their special interest in a particular solution of these issues.

The fourth rule is based on the confessional ideology of 'subsidiarity' (Roman-Catholic) and 'sovereignty within one's own circle' (Protestant) as demarcation principles in the relation between the

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\(^{13}\) For a public choice analysis of this historical example of vote trading in the Netherlands see Van den Doel (1979: pp. 87-90).
State and society\textsuperscript{14}. These two principles have been employed as guidelines for the expansion of government intervention in the economy between the World Wars. The expansion in this period concerned mainly with the laying of the foundations for the social security system and for the health care system in the Netherlands. This expansion started reluctantly, because the 1920s and 1930s are marked with severe political discussions between socialist, liberal and confessionalist parties about the tasks modern government had to perform in an economy during crisis\textsuperscript{15}.

The expansion of the welfare state

After 1945, the necessity of economic recovery (1940s) and later on the enormous expansion of the welfare state (during the 1950s and 1960s) required a more active government involvement in the market sector. An agreement over the active role of the government in the economy and in society was established by the various so-called Roman-Catholic Red coalitions between the socialist party (PvdA) and the catholic party (KVP)\textsuperscript{16}. The rapid expansion of the Dutch welfare state took place in the 1950s and 1960s. Especially in the policy fields of education, health care, housing, and social services, multiple public activities - measured by public programmes, public expenditure, and public employment - were employed. For this purpose, a myriad of so-called 'institutions of private initiative' were already available or

\textsuperscript{14} The principle of 'sovereignty within one's own circle' implies, that the various religious groups (pillars) are autonomous in the handling of public issues and affairs and the State has only limited competence in dealing with the affairs that are deliberately are handled by the pillars themselves. The principle of 'subsidiarity' implies, that the State has the obligation not only to fulfill the tasks that are not handled by the autonomous pillars, but also has to create conditions for the functioning of the pillars handling their own affairs.

\textsuperscript{15} The failure of economic policy to secure economic growth, price stability, income maintenance and employment in the lasting economic world crisis of the thirties mainly paralysed the debate in economic policy-making and in economic theory about the role of government in a market economy.

\textsuperscript{16} For an English introduction to the post-war economic and political history of the Netherlands we refer to the various essays in Griffiths (1980); for a history of the liberal, the confessionalist, and the socialist parties we refer to the relevant chapters in De Beus and Van Doorn (1984).
if necessary were founded: the 'foundations' (and associations) men-
tioned in the previous section of this paper (see Van Mierlo and Ger-
richauzen, 1988).

These foundations became the main institutional arrangement of
the Dutch welfare state. Together they formed a large third non-profit
or not-for-profit sector between the public sector and the private
sector. This third sector of 'non-market private initiative' contains
various schools and institutions in the field of education, various
medical institutions (including financial institutions) in the field
of health care, various housing associations and various institutions
of non-commercial social services. In all these policy fields, these
institutions of private initiative fulfill a 'political double-
role'. At the input side of the political process these institutions
(and especially their overarching umbrella-organizations at the
national level) try to influence public policy-making. As such, these
institutions function as political pressure-groups (role 1). At the
output side of the political process these institutions take (partial)
responsibility for the execution of public policy: as such, these
institutions function as semi-public organisations (role 2). The
concept of the political double-role expresses that these institutions
have a private legal status while performing public tasks. In terms of
political science, these institutions can be considered as semi- or
para-political organizations.

These institutions were already available in the 1950s as the
expansion of the welfare state came into political debate in the

17 Institutions of non-market private initiative can be considered as
the Dutch (and probably the European) equivalent to the American
'voluntary associations'. In a comparative study of these institu-
tions in the United States and Europe, Kramer (1981) speaks of
'voluntary agencies', being private organisations which fulfill
public tasks.

18 For the concept of the 'political double-role' performed by the
Dutch institutions of non-market private initiative see the
introductory chapter in Van Mierlo and Gerrichauzen (1988). This
concept is somewhat elaborated in various essays in Van Mierlo
(1989).

19 In compliance with the famous definition of politics as 'the
authoritative allocation of values' by David Easton (1965a and
1965b). In this broad definition, the State can not only autho-
ritatively allocate values, but also can be involved in this
allocation process through private organizations. This implies
the much neglected truism: Politics is about more than the State!
Netherlands. A broad consensus existed about the desiribility of this expansion in the policy fields of education, health care, housing, social security and non-commercial social service, but there was disagreement between the main political groups about the institutional arrangement of this expansion. After some discussion during the ten year Roman-Red coalition, political compromise was struck in the institutions of private initiative, which in the 1930s and in the 1940s had originated from the confessional pillar. The socialists rejected market provision for the various welfare goods and services and favoured if possible public provision by purely govermental institutions. In this design, the welfare institutions would belong to the pure public sector of the economy. The confessionalist parties also rejected pure market provision, but they too did not trust a pure public provision by State-like organizations. The principles of 'subsidiarity' and 'sovereignty in one's own circle' prescribed that the provision of welfare goods and services would be delegated to the autonomous institutions of a non-market private initiative.

The compromise of private institutions performing public tasks

A compromise was born: these institutions of private initiative became the main institutional arrangement of the welfare state in the Netherlands. For the socialists, these institutions were the first step to government provision of welfare goods and services. This first step implied a withdrawal from a market provision, but ultimately the provision of welfare goods and services had to be withdrawn from the institutions of private initiative and had to be transferred to the State. For the confessionalists however, this was as far as they would go with withdrawing the provision of welfare goods and services from the market. The many institutions of private initiative were part of the confessional ideology over the organization of the State and of society. They rejected a dominance of the market sector but they also rejected a large state or public sector.

In the period 1945-1958, this compromise between confessionalist parties and the socialists was maintained by the subsequent Roman-Red political coalitions. A rapid expansion of the welfare state was made possible by an institutional arrangement of the various organizations of non-market private initiative which became involved in the provision of welfare goods and services. In the 1950s and 1960s these
institutions did not only grow in number but also in importance as they became the main vehicle for the performance of specific public tasks in the welfare state, i.e. the provision of welfare goods and services independently from both the market sector and the public sector. These institutions performed public tasks in relative political autonomy from the State. In exchange for this service, the government started to subsidize the private institutions.

Partial 'statisation' of the third sector

In the late 1960s these government subsidies amounted to almost 100 per cent of the income of the private institutions performing public welfare tasks. Ultimately, the institutions became financially independent from the contributions and payments of their clients. Their services became available for the customers at no cost as they were totally subsidized by the government. This development of simultaneous relative political independence but complete financial dependence of the government budget resulted in partial statisation of the third sector.

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20 A Dutch specialist in public law and non-market institutions of private initiative Couwenberg already analyzed this development of the Dutch welfare state in his Ph.D.-thesis published in 1953. In his chapter in Van Mierlo and Gerrichauzen (1988: pp. 20-50) he repeats and elaborates his theoretical and empirical analysis. His conclusions remain the same as they were 35 years earlier. He states that these institutions in 1953 as well as in 1988 maintained a dominant position in: the agricultural and the commercial-industrial sector, the housing sector, the labour relations, the social security system (in kind), emigration, preventive and curative medical aid, social services, education, youth care, cultural development, arts, public television and broadcasting. I estimate that all these private institutions together receive about one quarter of the total governemnt budget in the form of subsidies for their performance of public welfare tasks (an other quarter is spent on the pure public sector, and the remaining half of the budget consisting of public expenditure for social security and cash payments for income redistribution.

21 Statisation refers to the process of private institutions becoming state-like organisations as they increasingly show characteristics of governmental institutions without acquiring the formal status of governement bodies. Hence, statisation is a sociological process and should not be confused with formal political decisions on socialization or nationalization of industries in the market sector.
sector. This partial statisation helped the institutions to survive the depillarization processes which occurred in the Netherlands in the 1960s and 1970s. In politics, the emancipating voters turned their back massively to the confessional parties. These parties suffered an electoral decline of almost 40 per cent (!) in ten years time. At the institutional level, the emancipating clients did not turn their back to the private welfare institutions. Cultural depillarization was not accompanied by institutional depillarization in the Netherlands (Van Mierlo, 1985). This is due partly to the free services provided by these institutions to their clients, partly to the high quality of these services, and partly to the monopoly position these institutions had established in the provision of welfare goods and services as both market competition and government provision of these goods were absent.

Some conclusions on the privatization paradox

This historical public choice analysis on the 'logic of institutions' in the expansion of the Dutch welfare state brings us to the following conclusions. First, we cannot speak of a dichotomy of pure public sector-pure private sector in the Dutch welfare state. The public-private polar case found in the textbooks does not hold for the Netherlands. In reality, we have a three sector-economy: the pure

22 The confessional-socialist compromise over private institutions performing public tasks of the 1950s was exchanged for a comparable compromise on the institutional arrangement of the Dutch welfare state between the Christian democratic parties and the liberal party (VVD) in the 1960s and early 1970s. This compromise was the price to be paid by the liberals for their entry into the government coalition. During this period of confessional-liberal coalitions the Dutch welfare state expanded rapidly, in particular for public expenditure and arrangements for education, health care, housing and social security. It is not the socialists but the liberals who bear a historical (if shared) responsibility for the overexpansion of the Dutch welfare state during this period of economic prosperity!

23 From 1963 to 1972, the catholic vote for the KVP fell down from 31.9 to 17.7 per cent. The vote for the two protestant parties ARP and CHU however remained relatively stable in this decade. Dutch Election Studies show, that starting in these years about half the Dutch electorate behaved like 'floating voters'. The Dutch National Election Studies show that ever since the floating vote rules voting behaviour for about one third to one half of the voters in the Netherlands.
public sector of government institutions, guided by the budget mechanism; the pure market sector of private firms and businesses, directed by the market and price mechanism; and the semi-public, non-profit sector of institutions engaged in non-market private initiative, financed by government subsidies but performing public tasks in relative autonomy. In the Netherlands (as well as in other European countries) this third sector is relatively large.

Second, we find another explanation for the privatization paradox in the Netherlands. In the expansion of the welfare state, many new public tasks are not performed by pure government institutions, but by already available institutions of non-market private initiative, which together form a large non-profit sector in the Netherlands. This third sector is the result of the specific institutional arrangement of the welfare state that was adopted in the 1950s and 1960s. This implies a privatization of tasks and organizations in the public sector to the semi-public sector. This privatization has been carried out and defended on the base of political-ideological arguments and not for the economic reasons listed above in our introductory section (administrative, budgetary and macro-economic motives). This ideological privatization towards the third sector already took place in the 1950s and 1960s and this explains why the economic privatization of the 1980s from the pure public sector to the pure private sector has not made much progress in the Netherlands: what could be privatized already has been privatized, though not to the pure market sector but to the third, non-profit sector! Consequently, privatization from this third sector to the pure market sector theoretically is possible, but that is another discussion. So far, this discussion has been successfully prevented by the still dominant position of the Christian democratic party CDA in Dutch politics and by the still dominant position of the non-market private initiative institutions in the performance of public welfare tasks.

IV. THIRD SECTOR IN THE NINETEEN-EIGHTIES AND NINETIES

The private institutions performing public tasks in the third sector of the economy have survived the depillarization processes of the 1960s and 1970s due to their partial statisation. Citizens became emancipated voters but not emancipated clients of the welfare insti-
tutions, because these institutions provided their services free of user charge (subsidized by the government budget), with outstanding quality and in a monopoly situation. However, this comfortable institutional setting changed radically in the 1980s. A two-fold development took place in the Netherlands.

The ambiguous government

The fight against the economic crisis ultimately resulted in the start of the so-called six Major Operations (as mentioned in the introductory section of this paper) to establish a financial and managerial reconstruction of the government administration and of the public sector (Van Nispen and Noordhoek, 1986)\textsuperscript{24}. The Major Operations resulted in an ambiguous government attitude towards the private institutions in the third sector. On the one hand, government subsidies for the public tasks performed by the private institutions were reconsidered thoroughly, sometimes resulting in considerable reductions. This subsidy reduction fits into the 'distance model' with regard to the relation State-society\textsuperscript{25}.

On the other hand, government control over the private institutions employing these subsidies for the performance of public tasks have increased enormously in recent years. This increased control fits into the 'approach' model with regard to the relation State-society. Subsidy reduction and increased control are employed simultaneously by the Dutch government in various policy fields in which the third sector takes a strong position: education, health care, housing, social services. Case studies of this ambiguous government behaviour towards private institutions performing public welfare tasks are presented in various chapters in Van Mierlo (1989). As a result of this ambiguous government behaviour, many private institutions are increasingly confronted with financial and managerial problems in

\textsuperscript{24} This reconstruction is but one track of the so-called three track-economic recovery policy of the cabinets Lubbers I and II (1982-1989). The other two tracks are: the creation of employment (in the market sector of the economy) and the strengthening of the firms and businesses in the market sector.

\textsuperscript{25} The distance model and the approach model can be employed to describe and analyse the relations between State and society. These models are developed in my introductory chapter in Van Mierlo (1989).
performing their public tasks. Since government subsidies decrease and consumer contributions for the provided services were already scrapped in the 1950s, these institutions have to deal with diminishing income. By consequence, the institutions sooner or later have to decide whether to charge their clients, to contract their services, or even to go out of business.

The advancing market firm

Moreover, there is another change going on. Various private firms and businesses in the market sector react to this ambiguous government behaviour towards the non-market private institutions by penetrating the traditional non-commercial market of public provision of welfare goods and services. This development implies, that the monopoly position of the non-market institutions is endangered. If these institutions can no longer deliver their services free of user charge and if the quality or quantity of their services decreases, we will probably see the entry of commercial service providers from the market sector, resulting in various forms of competition between these institutions of modern private initiative and the institutions of traditional private initiative. Incidental efforts towards such market penetration have already been made in the Dutch health care system but have thus far failed. However, additional efforts will be made in the near future, and there is no reason to believe that they will also fail. In the policy fields of education, housing and social services, comparable efforts have been made, and they are quite successful thus far. This implies that increased efforts of market penetration (in search of the well-known 'niche in the market' of public welfare goods and services) can be expected.

Taken together, a two-frontier war threatens the institutions of non-market private initiative. In the coming years they will be confronted with an ambiguous government as well as with an advancing market sector. The traditional institutions will loose their monopoly position and will be confronted with increasing competition from the market sector. This is a completely new external situation for these institutions and it certainly will effect their internal workings and organization. Therefore, a strategic reorientation will be necessary, because it is uncertain that they can cope with this radically changed
Actual and optimal division of tasks between sectors

These past and future changes in the lines between pure public sector, non-profit or semi-public sector, and the pure private sector, bring us to the following question: which development can we expect in the near future in the actual division of tasks between the three sectors? And, secondly, does this development imply a movement towards the optimal division of tasks? The first question requires empirical research of the actual situation in a welfare state. For the second question a theoretical analysis is necessary.

Systematic and comparative (countries and policy fields) empirical research of the actual division of tasks between the three sectors, and of the developments in the actual division, has not been conducted as yet. The Netherlands will probably witness a contraction in the 1980s and 1990s of the government sector (due to the combined effects of the Major Operations). The non-profit sector of institutions of non-market private initiative will take over some tasks of government (some privatization for political-ideological reasons) but will loose some other tasks to the private market sector (as a consequence of the two-frontier war against the ambiguous government and the advancing market sector). Finally, the pure market sector will gain some tasks from both the government sector (due to privatization based on economic motives) and the third, non-profit sector (as a result of market penetration in the non-profit sector). My tentative conclusion would be that these changes will result in a smaller pure public sector in the Dutch welfare state, a larger pure market sector, and a reshuffling of the third, non-profit sector. This hypothesis is testable in empirical research. The size of the three sectors could be measured by expenditure (budgets), activities and

26 Further analyses of this strategic problem for the private institutions in the third sector can be found in Van Mierlo and Gerrichhauzen (1988) and in Van Mierlo (1989).

27 For the Netherlands, a systematic comparative empirical research of the developments in the division of tasks between government organizations, private institutions, and market firms in various subsectors of the health care system is currently in preparation. The book publication is planned for 1991 (see Van Mierlo, 1991).
programmes, and manpower employed in the three sectors for the provision of goods and services.\textsuperscript{28}

A theoretical analysis of the optimal division of tasks between the three sectors of the modern welfare state could start with a welfare economic approach. The simultaneous employment of the economic theory of market failure and the economic theory of government failure (with regard to efficiency in resource allocation and equity in distribution) should yield propositions about which goods and services should be provided in the market sector (and under which conditions) and which goods and services should be withdrawn some way or another from market provision.\textsuperscript{29} When the decision is made that some goods and services should not be provided by the market, the question has to be answered whether the provision of these goods and services should be transferred to the pure public sector (government bodies) or should be the responsibility of the third, non-profit sector (institutions of non-market private initiative).\textsuperscript{30}

The answers to both the empirical question and the normative-theoretical problem would enable us to give an answer to the most important question: do the actual developments in the division of tasks between the three sectors imply a movement towards an optimum, or do they mean a movement away from that optimum? The answer to this crucial question results in a programme of action for citizens, politicians, administrators, and businessmen, as well as for economists providing policy-advice.

\textsuperscript{28} Of course, the size of the sectors should not only be measured by separate input measures. Output measures have to be included to relate input and output of organizations with each other. This would enable us to measure the relative efficiency of institutions.

\textsuperscript{29} In this (marginal) comparison of costs and benefits of market provision versus government provision the technical characteristics of goods and services (and their political evaluation) take a central position. Answers can be given by (normative) cost-benefit analysis and price theory from the perspective of resource allocation and income distribution.

\textsuperscript{30} Again a comparative analysis is required of the costs and benefits of government provision versus provision by private institutions. The analysis should focus on the advantages and disadvantages of the various ways of provision from the perspective of democracy. Answers can be given by (normative) theories of public administration, political science, and public choice.
Conclusion and a final note on international comparison

To a certain degree, the Netherlands is unique with regard to pilarization/depillarization, consensual democracy, and the existence of a large third, non-profit sector of the economy, populated by the myriad institutions of non-market private initiative. However, the lesson to be drawn from the analysis above is clear: in reality, there is no clear line between the public and private sector of modern economies. The polar case of pure public-pure private from the theory of economic systems does not exist in the practice of modern welfare states. Instead, there is a large area between the pure public sector and the pure private sector, a mixed sector showing characteristics of the government sector (budget mechanism) as well as characteristics of the market sector (market and price mechanism).

Andeweg (1989: p. 126) concludes, that despite its idiosyncracies, the Dutch experience with privatization has many characteristics in common with other countries. He refers to Sweden, which shares with the Netherlands the paradox of a large public sector and a small nationalized industry. With many other European countries the Netherlands share a large grey area of various hybrid forms of economic activity between the public and the private sector. In that respect, the Dutch case highlights one of the difficulties in the comparative study of the political economy of privatization: the definition of the public sector.

At first sight it seems that, despite a huge public sector, there is not much privatization in the Netherlands. There cannot be much privatization, because the actual potential for privatization is small, given the nature of the Dutch public sector. But when we cast our net wider, in order to include the third mixed sector where government and private sector organizations are intertwined (the Andeweg analysis) and where many non-profit institutions of non-market private initiative play a dominant role in the performance of public tasks (analysis of this paper), we find many of the same developments that have taken place elsewhere and that will take place in the near future.

The political economy of hidden privatization and of privatization to the third non-profit sector for political-ideological motives are much more difficult to study. Government documents, in which policy objectives and strategies are written down, are not
available or do not exist. Such privatization is probably not part of a coherent and conscious policy, but the result of long term historical developments and of political decision-making which many political actors and political pressure groups (successfully or unsuccessfully) have attempted to influence. Opposition or resistance to this particular type of government withdrawal takes the form of administrative court actions by boards of private institutions against the discontinuation of a subsidy (defensive strategy), or results in the search for new income sources (sponsors or consumer contributions) for these institutions (offensive strategy). The mutual entanglement of public and private sector and the existence of a large third non-profit sector is sometimes considered as an obstacle to privatization. The analysis of this paper suggests that the opposite probably is closer to the truth 31.

31 Andeweg (1989: p. 126) concludes his analysis of hidden privatization in the Netherlands with formulating this statement by a much more cautious question ('one might wonder, whether...'). The analysis in this paper of the third, non-profit sector in the Netherlands gives rise to the more firmly stated assertion here.
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