

accused of being an inflationist was so concerned with avoiding inflation that he urged a policy of price stability in his *Tract on Monetary Reform* (1923) and his *Treatise on Money* (1930) and even expressed concern with the possible inflationary consequences of Britain's rearmament program in early 1937 when unemployment was around 12 percent.

What the reader will not learn is why Keynes omitted open-economy considerations from his *General Theory*. Nor will he learn why Keynes, despite the sophisticated analysis presented in his *Tract on Monetary Reform* of inflation as a tax on real cash balances, failed in the *General Theory* to mention such inflation as a means of inducing wealth-holders to hold less cash and more real capital so that the capital stock could approach its optimum level. True, Meltzer advances some tentative answers to these questions. But he admits that they are mere conjectures unsupported by Keynes's own words. In the end they remain a mystery.

To summarize, Meltzer has written an important book that should revive interest in a great economist whose reputation has been in decline since the failure of Keynesian policies in the late 1960s and 1970s and the consequent rise of the anti-Keynesian monetarist and rational expectations (or new classical) schools. That Meltzer finds much of value in Keynes's writings while simultaneously being a leading monetarist critic of Keynesianism only adds to the book's appeal. Another plus is that Meltzer has found something new to say about Keynes. Still, it remains to be seen whether Meltzer's unconventional interpretation of Keynes's central message will withstand critical scrutiny. Certainly, it will generate discussion among scholars and policymakers for years to come.

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Unfair Competition: The Profits of Nonprofits

James T. Bennett and Thomas J. DiLorenzo
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Ideally government provides for the national defense and a few other public goods, establishes a legal setting conducive to specialization and exchange, and leaves the production of the vast majority of goods and services to the private sector. Things are far from ideal, however. Government routinely helps finance the production of a large number of goods and services that could be supplied privately and, in fact, would be more efficiently produced by the private sector. In doing so, government hampers the private sector's ability to create wealth by subjecting it to unfair (subsidized) competition and, to rub salt into the wound, these subsidies are paid for through higher tax burdens imposed on the private sector.

Bennett and DiLorenzo have written what can best be described as an analytical exposé on an important, but largely overlooked, aspect of government's pernicious usurpation of private sector activities. They

have focused attention on the commercial operations of so-called nonprofit enterprises by amassing a wealth of data on the scope and performance of these enterprises. The authors then interpret these data within the analytical framework provided by the economics of public choice and property rights.

As Bennett and DiLorenzo point out early on, "nonprofit" enterprises are not nonprofit enterprises. In their words, "A nonprofit can be (and often is) a profitable enterprise in that its revenue or income exceeds its expenses, . . . [but] a nonprofit is prohibited from directly distributing profits to anyone associated with the organization" (p. 12). In return for accepting this restriction on the dispersion of profits, and for a supposed *commitment* to devote these profits to furthering charitable (or otherwise public service oriented) work, nonprofit enterprises pay no taxes, receive subsidized mail service, have access to low interest loans, sometimes exercise the power of eminent domain, and commonly receive direct government subsidies.

The rationale for the preferential treatment given nonprofits is that they are better able to provide important public services than are private for-profit enterprises. Supposedly, the elimination of the profit motive and the provision of subsidies allow nonprofits to perform essential services that, because of thin markets, poor consumer information, or public goods problems, would otherwise not be provided or would be provided poorly.

Bennett and DiLorenzo demolish, both with theory and example, these standard arguments for the special privileges of nonprofits. None of the above justifications is consistent with nonprofits engaging in commercial activity that is also being performed on a large scale by the for-profit private sector. The primary target of Bennett's and DiLorenzo's discussion, however, is the nonprofits' use of their subsidies to engage in exactly this commercial activity and, in doing so, to compete unfairly against private firms. There is a growing trend, as documented by Bennett and DiLorenzo, for nonprofits to expand beyond the functions upon which their nonprofit privileges are based and into normal commercial activity. The very presence of for-profit firms in these endeavors indicates that such activities obviously are not hampered in any significant way by thin markets, public good problems, or inadequate consumer information.

No one can deny, of course, that real-world markets are imperfect (at least when judged against the *standard of textbook perfection*), or that there are public policy schemes that, if conceived of by Solomon and implemented by saints, would improve the performance of markets. But Bennett and DiLorenzo point out that there is no reason to believe that a policy of subsidizing nonprofit enterprises will improve either the efficiency or equity of the market place. Indeed, the opposite is more likely to be the case.

As Bennett and DiLorenzo emphasize, the nonprofits are prevented, *not from making profits, but from paying those profits directly to residual*

claimants. Managers, as well as other employees, of nonprofits can benefit from the excess revenues generated by increasing the cost of operating with higher-than-competitive salaries, more pleasant and posh working environment, larger staffs, extra travel, and other work related perquisites. Clearly the incentives that exist within nonprofit enterprises to operate efficiently are far weaker than those operating within for-profit firms. Given the differences in incentive structures, the nonprofits would find it impossible to move into normal commercial activities and compete effectively against for-profit businesses without their governmentally bestowed advantages. Because of these advantages, the nonprofits are not only engaging in unfair competition, but reducing efficiency by doing so.

Nonprofits might be able to redeem themselves for their inefficiency in commercial activities if they used the proceeds to provide valued public services on a more equitable basis than do for-profit enterprises. But the inefficiencies of nonprofits do not inspire confidence that equity will be served. And as the managers of nonprofit organizations frequently find, the financial gains from providing services to those who can afford them usually are greater than the gains from serving the truly needy. Bennett and DiLorenzo back this insight with a detailed look at two nonprofit organizations (YMCA and hospitals) that justify their nonprofit privileges by claiming to provide needed services to the poor, services that are not provided adequately by the for-profit sector.

In a chapter on "Unfair Competition in the Physical Fitness Industry," Bennett and DiLorenzo document the YMCA's transformation from an organization dedicated to "improving 'the spiritual, mental, and physical health of the young,' especially the less privileged" to one providing upscale health clubs for the affluent in direct (and subsidized) competition with for-profit firms. Many of these YMCA branches now have, in effect, a "no kids" policy making it difficult for even the children of its affluent members to use the Y's facilities, much less the disadvantaged children in whose name the Y continues to justify its tax breaks and direct subsidies.

In another excellent chapter on "Unfair Competition in the Hospital and Medical Care Industries," the assertion is considered that nonprofit hospitals are more committed to treating the poor than are for-profit hospitals. Bennett and DiLorenzo discuss a major study of nonprofit and for-profit hospitals by Herzlinger and Krasker that concludes that for-profit hospitals "are more efficient than nonprofits, reinvest their earnings in newer plant and equipment, and offer just as broad a range of services to a large number of patients, including the medically indigent." Based on the evidence and for reasons nicely explained by Bennett and DiLorenzo, the only ones who appear to clearly benefit from the granting of nonprofit privileges to hospitals are physicians.

In making their case against nonprofits as strong as possible, Bennett and DiLorenzo are on occasion somewhat overly critical. There is reason

to doubt their argument, for example, that nonprofit enterprises are less efficient than government enterprises because the voter has more control over the latter. Such voter control is notoriously weak, and in my opinion it is likely to be less effective at controlling political managers of government enterprises than the imperfect, but nonetheless real, residual claimant incentives of nonprofit managers. After all, revenues raised through government enterprises commonly go into the general fund, while nonprofit managers retain control over the revenues they generate. Also, nonprofits compete on occasion against government enterprises and, in doing so, provide the public a useful alternative. Nonprofit Catholic schools are undeniably more efficient than are public schools, and serve to moderate, at least to some extent, the stranglehold the public school system has on educational choice. In the perfect world described at the beginning of this review, nonprofit enterprises would be unequivocally harmful. In the world of governmentally generated distortions in which we live, it is possible to say some, if only a few, positive things about nonprofits.

But the fact that it is possible to discover a few good things Bennett and DiLorenzo leave unsaid about nonprofits is, at worst, only a minor criticism of an excellent book. The objectives of the authors are to make a strong case against the nonprofit sector of the economy and to prompt a re-examination of public policy toward nonprofits. They impressively accomplish the first objective, and if they are successful with the latter, the best we can hope for is that the re-examination will be guided by the arguments and evidence presented in *Unfair Competition: The Profits of Nonprofits*.

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