THE THIRD SECTOR AND DOMESTIC MISSIONS

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What tools are best suited to serve our economic and social needs? This question has been debated for more than a century, usually in the name of the virtue of capitalism, which lauds the market system, and socialism, which favors, in effect, state administration. Each ideological system has sought purity in its guiding principles, despite the fact that they are not mutually exclusive.

Thus, private enterprise plays a significant role in the production and distribution of goods and services in socialist republics, but this activity is considered an exception, a residue, a transitory element, or a concession to the old-fashioned something to be eliminated later. Similarly, in the United States, the existence of large-scale government business—for example, the Atomic Energy Commission and the Postal Service—is viewed as exceptional, and either undesirable or to be condoned for special purposes, such as security or lack of profitability in a vitally needed service.

Actually, over the years, the private sector has grown in the Soviet Union and government business has expanded in the United States. Nevertheless, this fact is either disregarded or bemoaned by each side as a sure sign of increasing “softness”—if not outright deterioration—in the respective system. Like many other ideological debates, this one has concealed more truth than it has highlighted and it is particularly unhelpful in providing insight into the dynamics of the societies involved. As several keen analysts already have indicated, the capitalist and socialist systems, contrary to their avowed intentions, are actually moving toward each other—or, as I see it, they are moving toward a third system, one in which both profit making and administrative principles of organization, production, and distribution are widely used. This is not to suggest that the differences will disappear; the state enterprise will surely continue to play a major role in the Soviet Union in the foreseeable future, just as the profit motive will continue to dominate in the United States, but the two systems are becoming ever less “pure,” more “mixed,” and hence closer to a third type.

Moreover, even this picture—i.e., the notion of a private economy with a public ingredient, and a public economy with a private factor—does not get close enough to the societal reality to allow careful analysis of the main options for economic, social, and domestic efforts, nor does it reveal the proportion or direction that the mixes will change. To achieve this we must move closer to the situation, which we attempt to do by focusing here one country at one state in time—the U.S.A.—at the end of the ’60s, early ’70s.

Where We Are

In the U.S.A. ever since the Republicans returned to the White House in 1969, frequent tribute has been paid to the capitalist, market, profit-making ideology. The expansion of government in any form is seen as evil by the modern conservative ideologists, who suggest that tasks and funds should be shifted from the government to the private sector. One spokesman for this approach, Peter Drucker, professor at the New York University Business School, has called the change “re-privatization”; he has written that the government should act like a conductor in a concert—initiating, guiding, coordinating, but not actually carrying out the missions. That job would be returned to the private sector.4

However, in the formative years of the Nixon Administration, the Chief advisor to the President in domestic affairs was a New Deal liberal, Pat Moynihan, not Drucker. And practically all the major programs initiated or advocated by the Nixon Administration have been those that entail increased governmental efforts. Thus, the major anti-poverty, welfare plan of the Nixon Administration has been based not on black capitalism,
JOBS (a businessmen-based drive for work to the unemployed), or any other private enterprise approach, but on the federally funded, federally administered, notion of guaranteed annual income, known as the Family Assistance Plan. Nixon's "full-employment" budget attempts to give an added boost to the economy through such measures as expanding the money in circulation, increasing the national debt, and reducing some taxes—all made on the federal level. And Nixon's "revolutionary," "bold," and "most significant" domestic proposal—revenue sharing—only involves the transference of some monies from Washington to states, cities, and other local governments. But of more consequence than all this, of course, is the setting up of price and wage controls. They will subject to government review and control most aspects of the private sector previously untouched by the state. At least theoretically, all businesses (and especially larger ones) now have a status similar to that heretofore reserved for utilities, which cannot adjust rates, approve raises, or basically change their services without government approval or without adhering to government guidelines.

The major exception to this general trend of increased federal involvement is Nixon's proposed health plan, which calls for a "partnership" between the business community, its employees, and the federal government. (This plan is discussed in greater detail below.) Private insurance companies would administer a plan whereby the business community would have to provide health insurance for employees, who themselves would contribute about one third of the necessary funds for their health care. The federal government would supply the funds for the poor and the unemployed. The proposed national health insurance plan points the way that many new domestic plans might follow.

The Third Sector

While debate over how to serve our needs has focused on the public versus the private alternative, a third alternative, indeed sector, has grown between the state and market sector. Actually this third sector may well be the most important alternative for the next few decades, not by replacing the other two, but by matching and balancing their important roles.

The situation is analogous to the early days of the capitalist era. Rapid industrial growth "took off" only after a new legal and organizational concept paved its way, namely the limited liability corporation. This allowed for the accumulation of the large amount of capital necessary for industrialization and large-scale marketing—amounts which most families or partnerships could not amass.

In the present era, when society increasingly turns to provide public goods such as education, health, and welfare, the search is on for appropriate legal and organizational tools. Of course some public goods are, and will continue to be, provided by the private sector; e.g., production of textbooks for schools. And there certainly is no question that the government does and will provide many services, like social security. But increasingly we find missions—such as pollution control—where the profit motive is not great enough and/or costs involved in making the mission profitable seem too high. At the same time, we are ever more tired of the reliance on multiplying, expanding government bureaucracies. A method must be developed to combine the best of both worlds—efficiency and expertise from the business world with public interest, accountability, and broader planning from government.

An answer is coming not from theory but from a large variety of experimentations with new forms which are developing to carry out our domestic missions. All of these may be seen as attempts to find the appropriate vehicle through which to conduct the social as well as the economic "business" of mature capitalism. These developing forms are mainly in the third sector, which is neither governmental nor private. Some are created out of a mix of private business and governmental elements. Others take form of voluntary associations (e.g., the Red Cross or the League of Women Voters) and the nonprofit corporations (e.g., the Ford Foundation). Not all are successful, not by a long shot; but many seem to do significantly superior work than either the federal or local governments, and they are able to carry out missions which are not profitable enough to attract the private sector. In fact, the most promising solutions to our domestic problems are among the third sector approaches now evolving.

It should be noted that there is a semantic difficulty indicative of the ideological confusion and novelty of the development we seek to highlight, which often clouds the debate about different approaches to domestic problems. Usual-
ly reference is made to the private vs. the public sector. This, though, hides the fact that the term "public" refers to both governmental and voluntary (or not-for-profit) beings. Moreover, while often the "non-profit" beings are lumped with the government ones, on other occasions they are treated as part of the private sector, e.g., Columbia University is referred to as a "private" university. As the third sector beings differ significantly from both dominant sectors, we suggest reference shall be made to private (profit), governmental (state), and public sectors (not-for-profit, voluntary).

That there is a need for such a concept can be seen by the semantic contortions writers have engaged in to point to the divergent type they recognized but had no category for. Thus, writing about the condition in which the United Kingdom government has a majority or minority holding of the shares of an "undertaking" which remains juristically a "private" company (quotation marks in original), one author uses the terms "mixed enterprise," in quotes, to indicate its novelty. No wonder; the author uses the term public corporaton to refer to fully nationalized, i.e., state, ones.

Professor Hokan Stromberg, discussing the situation in Sweden, tries to play the distinction at hand by referring to two kinds of public corporations: "state-controlled company" and "public institutions."  

And, when discussing the Children's Television Workshop, the producer of the world-reknown Sesame Street, Linda Francke, writes: "Legally, CTV is a 'public' rather than a 'private', non-profit foundation, the essential difference being that it is not only supported by government, but also gets additional income for the sales of shows . . ."  

Third Sector Bodies

We turn to review the large variety of third sector beings.

Health Insurance

One major type is the government-private sector partnership. It is illustrated by an idea which so far has not been enacted, the health insurance plan that has already been mentioned.

The national health insurance plan that the Nixson Administration proposed places part of the financial burden on employers, part on the workers. Employees:

...would pay 35 percent of the cost on insurance premiums at the start of the program and 25 percent after 1976. . . . [In addition, there is a suggested government contribution of] provisions costing about $1.4 billion for covering the poor with a family health insurance program, increasing the supply of doctors and other health professionals and streamlining the manner in which medicine has been practiced in the United States.

Nixon's plan requires, in fact depends on, the participation of private health insurance firms in this "governmental" effort. These companies would underwrite the increased employer costs as well as the family health insurance plan (for the poor, unemployed, and self-employed). Nixon recognized the "mix" nature of the plan. He stated in his message to Congress:

Good health care should be readily available to all of our citizens. . . . I believe the public will always be better served by a pluralistic system than by a monolithic one, by a system which creates many effective centers of responsibility—both in public and private—rather than one that concentrates authority in a single governmental source.

He did not suggest that, in effect, a third being, pieced together from private and governmental elements into one system, be generated.

Student Loans

Another program, similar in basic conception, is already at work in the student loan program. In this plan, the loan is taken by a student. The interest accumulated during the school years is paid by the government. The student repays the loan and the remaining interest after graduation at a rate of 7 per cent. The program is administered differently in different states, with some states guaranteeing a part of the loan against default and other states playing no role whatsoever. However, there are a number of features which are common to all of the loan programs regardless of the specific mechanisms of administration: (1) the federal government guarantees the loans against default, death, or disability of the borrower; (2) the family income of the student must be below $15,000 after adjustment for number of dependents and number of dependents in school; (3) the student may use the loan for tuition or for living expenses; (4) the total amount of loans may not exceed $7,500; and (5) the school plays no part in the loan procedures other than to certify the student's good standing.

The growth of the guaranteed loan program has been large and the ambitions held for it yet larger. In 1969 approximately 75,000 students received $670 million, with government financing totalling $71,200,000. In 1970, 923,500 students
received loans adding up to $794,241,000, with $114 million of government financing.

It must be pointed out that in comparison to federal fellowships, with their monumental paperwork (announcements, application forms, recommendation letters, transcripts of grades, evaluation forms, accounting) and high cost to the taxpayer, the student loan program involves little red tape, and the costs to the taxpayer are minor. It should also be noted that the administrative costs of the program are remarkably low. For instance, the appropriation for 1969-70 included $62.4 million for interest subsidies, $10.8 million for default insurance, and only $1.5 million for computer services.

The program is far from perfect; the rates are still too high, and many fear that the funds will soon run out. It is also criticized for not being responsive to the needs of poor and minority group students. The "Survey of Guaranteed Student Loan Accessibility," done by an independent firm (Chronicle of Higher Education, 3/16/70), found this to be true. While 42 per cent of the applicants were female, females accounted for 51 per cent of the refusals. Although 11.7 per cent of the sample was non-white, non-whites accounted for 36.4 per cent of the refusals. The report concluded that "the proportion of females and non-whites not receiving loans was significantly higher than could be explained by chance occurrence." But these shortcomings are being overcome by an increase in the federal contribution and the development of closer cooperation between banks and financial aid officers of universities. By and large, the student loan program provides a fine model for management of federal aid, in which the effects of dollars spent are multiplied many times through the economy.

NASA

Perhaps the most famous of the government-private sector mix was developed under NASA for project Apollo. The successful completion of the program was made possible by the combination of government facilities and funds, third sector beings, and private corporations. Thus, aeronautical engineers at universities and research foundations worked on government contracts with the businessmen from the aerospace industry to build spacecrafts that were tested and launched on government land. In reporting on their four years of intensive study of NASA, Sayles and Chandler point out that:

NASA, at its peak in the mid-1960s, sought contributions from 20,000 different organizations! . . . A scientist may be part of a university, responsible for the design and testing of an experiment to be flown by a NASA spacecraft, serving as a consultant to an industrial contractor that builds equipment for the agency, and a member of an advisory board that helps shape future science policy for NASA and other government agencies.11

Sayles and Chandler go on to say:

... thousands of engineers, scientists, technicians, and administrative personnel are employed in laboratory and field-development work, in basic research, in launching and tracking spacecraft, and in a whole host of support activities. While outsiders employed by contractors may comprise 90 percent of the work force, a critical amount of designing, testing, planning, and operating is conducted "in-house" by NASA personnel. Further, NASA believes, with substantial justification, that outsiders cannot be successfully stimulated, managed, or coordinated without a technologically sophisticated internal organization.12

Given the successes of NASA, it seems clear that it was able to overcome many difficulties and coordinate the efforts of all these individuals who worked for NASA at different points in time, with different perspectives and training, etc.

The key to making the NASA structure work rests upon creating an effective network of formal and informal communications. . . . To be on the safe side, NASA may err in over-communicating upward, laterally, and downward. It engulfs anyone who can conceivably influence or implement the decision. It establishes various "management councils" composed of co-equal associates to share progress and problems on a frequent basis. In an unending effort to exchange information in real-time, it uses telephone, hot lines, executive aircraft, datafax, long distance conference hook-ups by voice and data display and computer data transmission.13

Most of these networks cut across the sectors and thus help integrate them. The details of this necessarily well-coordinated operation are not important for our discussion. However, it should be remembered that no such approach has been attempted on our domestic problems. Imagine what effective an attack could be made on heroin addiction if government funds, hospital staffs, community groups, and local businesses got together to tackle the program under a well-coordinated and well-financed system! The same holds for pollution control, crime reduction, and consumer protection.

Postal Service

Sometimes third sector beings are created by governmental fiat. The U.S. Postal Service is an example of such a public corporation. While the
pre-1970 Post Office Department was dependent on Congress for rate increases, the new one must become entirely self-supporting. In fact, the last attempt of the old Post Office Department to increase its rate was vetoed by Congress. A year later, the Postal Service increased its rates. According to the Postal Reform Act, increased charges can be levied once the Postal Commission, not Congress, approves them. The enacting legislation requires the Postal Service to do what is necessary to maintain itself as a financially independent corporation.

In order to provide better service, this semi-independent corporation has altered its traditional way of operating. Thus, local postmasters used to have to turn to Washington (or at least regional offices) for every decision; now, the local branches seem to be remarkably free from centralization. For example,

Until a year ago the Baltimore office couldn’t pay its own utility bills. . . . The bills had to be certified and forwarded to a center in Atlanta for payment. Baltimore and other major post offices have also recently received authority to open small branch offices without higher approval and to make repairs and improvements costing up to $2,000. . . . Next fall the Baltimore office will move into a spacious new building filled with modern mail-processing equipment. The budgeting basis will be different, too. For the fiscal year beginning July 1, Postmaster Bloomberg is asking for a budget of about $60 million. Previously, postmasters in big cities had no budget; everything was decided by regional bosses.14

Before the Postal Service was formed, postmasters were often outsiders, appointed because of political connections. Now, on the other hand, men and women selected for these jobs are experienced and qualified. Their skills, rather than who they know, get them their jobs; thus, it is much more conceivable that one will go up through the ranks of the new postal system. This must lead to higher morale, if not to greater efficiency on the part of Postal Service employees. Although the average letter writer may not notice any difference, except in the color of the mailboxes, it is inconceivable to me that the new system, which cuts through many of the bureaucratic hassles created by an overly centralized operation, could be doing as poor a job as the old Department did. In fact, according to one source, improvements have been made. The San Francisco Examiner repeated a survey it did before the Postal Service was formed. Mailings were sent to over 675 individuals in the U.S., Great Britain, Mexico, and the Orient. People who had complained to the Examiner in the past about the postal system were reinterviewed as were postal officials and employees. Post offices were also revisited. The findings of this survey when compared to the past survey were:

- The public attitude towards mail service has vastly improved.
- More mail (especially packages) is damaged in transit.
- There is less personnel dissatisfaction with pay (workers have had a 39.4 increase all-around) and with working conditions.
- There is less political manipulation.
- There is less overt racism and greater minority participation.
- There is more dissatisfaction in respect to service to and from APO and FPO addresses (service men).
- Special delivery service is almost an utter waste of time and money.
- San Francisco originating complaints (once many and varied) are largely limited to plaintive wishes from the public that "the mailman would show up earlier than he does." (No complaints about hairy or barefoot postmen any longer.)
- Indefinitely worse service between Bay Area cities; some of it incredibly bad.
- Infinitely better service (than in 1963) to and from business and banking firms in the area.15

Amtrak

Amtrak, the new federally chartered corporation that now runs the intercity passenger trains in this country, is another example of a third sector being created by governmental fiat. The long-range task of the National Railroad Passenger Corporation (Amtrak is its nickname) is "turning a collection of rickety, money-losing passenger trains into a swift, modern transportation system that will attract more riders and make a profit—before it goes broke"16. Amtrak started operations on May 1, 1971. It received $40 million from Congress and an additional $300 million in loans and guarantees.

Amtrak has since taken a number of steps to remodel passenger railroad transportation, not all of which have been well received. Amtrak reduced the number of trains from 300 to 186. And passenger trains are now given the priority—formerly granted to freight trains—to make intercity trips shorter, trains no longer stop in many of the very small towns where trains used to stop. In addition, new train service has been added to heavily travelled routes. Connections have been improved because schedules have been revised.

Amtrak continues to have a number of problems that may have more to do with the recentness of the change than with the third sector approach.
Many trains are not filled to capacity or even full enough to allow Amtrak to meet its costs.

Initially, Amtrak was set up as a for-profit corporation. However, it suffered unanticipated financial problems less than six months after it took over the largely unprofitable passenger trains and could not achieve the aim of financial independence from Congress. There are many who see Amtrak as the first step in nationalizing the railroads in this country. Companies like the Penn Central can no longer foot the bills created by their large work crews, the loss of business to trucking firms, and the disappearance of certain markets. "As the government moves toward subsidizing long-haul passenger operations through Amtrak, it's an easy jump to rationalize federal support for short-haul freight operation," an Interstate Commerce Commission official says. Many railroad officials, Congressmen, and other public spokesmen are opposed to efforts toward nationalization of the railroads, while union members, creditors, and some Congressmen favor this solution. "And though the industry is generally horrified at the thought of government takeover, some railroad executives do see public demand for maintaining maximum rail service as tending to force public ownership."  

It is far too early to judge where all this will end. If large deficits will continue to plague the railroads, Amtrak might become little more than a "Department of Railroads," a way to nationalize passenger trains, thus becoming a new government arm. If miraculously the trains would be profitable enough to be entirely self-supporting, Amtrak may move toward the private sector. Most likely it will continue to be partially subsidized and otherwise mix or bridge the two sectors.

Other Organizations

There are other branches of our federal government, aside from the postal system, which might be profitably cut off from the bureaucratic maze and made into what the press refers to as semi-private agencies. It has been suggested that since the U.S. Office of Economic Opportunity is becoming mainly a research unit, it would be more effective if it were isolated from political pressures. One way to remove it from direct bureaucratic control would be to set up a public corporation and semi-private agency that would be partially funded by Washington. In an earlier publication, this author suggested a reorganization of the Food and Drug Administration which would be similar to the one our postal system recently underwent.  

The Food and Drug Testing Corporation, as the liberated FDA might be called, would be a public corporation endowed by Congress. Its trustees would be appointed from the scientific community, the National Science Foundation, the consumer protection movement, labor unions, etc. The newly formed non-profit corporation would charge a nominal fee to industries desiring the certification of their products. In this way, some of the costs of testing and research could be covered.

The new organization would be removed from the political pressures which hamper the effective operation of the FDA. Its long-term endowment could insure its semi-independent status and its financial security. Our purpose here is not to review all the recent criticisms of the FDA and to show how our own idea would save the day, but as has already been said, it is inconceivable that the new public corporation could do as bad a job as the old one.

The possibilities of the creation by government of public corporation are tremendous. For example, there is evidence that the public would be willing to try a radically different approach to our welfare problems. According to a poll conducted by the Center for Policy Research in 1969, 48 per cent of Americans would pay an average of $6 a month (or $72 a year) to insure themselves against poverty. Given that about a million Americans fall into poverty each year, the income generated by the premiums would provide all Americans a minimal income of $1,600 a year. Higher income could be provided if the premiums are raised. Welfare could be handled at least in part through the development of a public corporation that would be in charge of anti-poverty insurance.

Another way to modify anti-poverty programs has been suggested by a bipartisan group of 98 senators and representatives. They introduced "legislation to create an independent National Legal Services Corporation, which would be funded by Congress and operated by an autonomous board of public and private members."  

The suggested National Legal Services Corporation would be much more insulated from the political pressures that have surrounded government-run attempts at providing legal aid for the poor. Like my proposed Food and Drug Testing Corporation, the National Legal Services Corporation would be cut off from the bureaucratic maze.
of governmental agencies because of its autonomous status as a public corporation.

These governmentally created public corporations do not have to be on the national level. In New York City, the massive hospital system has been turned into the New York City Health and Hospitals Corporation. The quality of hospital care was rapidly deteriorating in New York City. If the budget for the Corporation is not cut too drastically, we will be able to see what a difference the third sector approach can make in this area. It is hard to imagine that the newly formed corporation will do nearly as poor a job as the worn out agency did.

There have been other corporations that have been public, third sector from inception. The Public Broadcasting Corporation which, though far from an unmitigated success, is widely regarded as more effective than governmental agencies in the same business, (e.g., New York City’s own TV program on channel 31), or commercial TV, as far as broadcasting public education and information is concerned.

Third sector beings can operate in another fashion. Public nongovernmental authorities can be formed to carry out domestic services. One of the problems we frequently run into in this area is caused by the semantics I discussed earlier. The difference between “public” and “private” often hides the possibilities and the achievements of nongovernmental enterprises. For example, we have public universities, like the New York State Universities, and private ones, like Harvard. The same holds for hospitals—the Veterans Administration Hospitals are viewed as public while hospitals like the Columbia Presbyterian are private.

Universities

The really “private” sector schools are created for profit. Famous Artists and Career Academy would be examples. And the truly private hospitals are proprietary. Nonprofit hospitals, research organizations, universities and colleges, legal aid societies, abortion referral agencies, etc., differ markedly in organization, accountability, and cost-effectiveness from either governmental or private sector beings which produce the same kind of public goods.

Given our present situation, where the private sector has not been sufficiently mobilized to produce public goods on a large scale, the best services and facilities can often be found in the third sector. In the educational system, for instance, the universities most highly thought of are not governmental nor are they commercial (Harvard, MIT, Yale, Princeton, Columbia, etc.). And the state-run universities that are highly respected are treated as if they were in the third sector. Berkeley and the University of Wisconsin would be good examples of these. Interestingly, those whose autonomy from state control is being violated are the ones which are on the decline.

There have been some recent attempts to allow the private sector to be more directly involved in the teaching of children. Thus, private concerns were to be paid only to the degree that they improve the performance of students. “Performance contracting,” as it is called, was tried out in at least 16 states at a cost of $6.5 million to the federal government. “On the average, each private contractor must improve students’ performance in reading and mathematics by 1.6 grades in order to break even.”

Indications so far are that contract teaching does not work. A study carried out for HEW by the Rand Corporation found that the programs run by private contractors produced no overall gains in the performance of the children; in most cases, the children progressed at the same rate as those not involved in performance contracting.

Hospitals

“Voluntary” hospitals are considered to be the best in our country. Ten experts on hospital care were asked the following question: “If you or your family required major hospital services—diagnosis or treatment—which 25 hospitals in the United States would you select as representative of the best?” The following hospitals were the most popular: (1) Massachusetts General, Boston; (2) Johns Hopkins, Baltimore; (3) University of Chicago, Chicago; (4) Columbia Presbyterian, New York; (5) New York Hospital, New York; (6) (tied) Barnes, St. Louis, and Henry Ford, Detroit; (7) Mount Sinai, New York; (8) St. Mary’s, Rochester, Minn.; (9) (tied) Palo Alto-Stanford, Palo-Alto, California, and Yale-New Haven, New Haven, Conn.; (10) (tied) University Hospital, Ann Arbor, Mich., and University of Minnesota Hospital, Minneapolis, Minn. All of these hospitals are also non-profit teaching institutions. They are all in the third sector—none are proprietary and none are governmental.

Proprietary medical schools were forced to close down as long ago as 1910 when the American Medical Association began to set new
standards for accreditation. Proprietary hospitals in general seem to be of lower quality than third sector ones. Government hospitals do not usually measure up to the third sector ones either. A good example of this would be a comparison of mental hospitals. The state institutions are basically inferior to third sector facilities.

Since July 1, 1970, abortions have been legal in the state of New York. Two different kinds of abortion referral agencies developed. The first kind is offered as a free service by groups like Planned Parenthood, the Family Planning Information Service, the Clergy Consultation Services on Abortion, and other non-profit groups. The other group consists of profit-making firms. These "have found in the hard-won reform the basis for 'one of the most lucrative businesses of the year.' . . . [according to] Stephen E. Mindell, an assistant attorney general in the office of State Attorney General Louis J. Lefkowitz . . . "26

The State Attorney General's Office now has an operating injunction against these commercial firms. They found that the profit-making abortion referral agencies were splitting fees with doctors and advertising medicine in a way that was contrary to the common law of the state. The case against Abortion Information Agency, Incorporated, a profit-making firm, is now in the Court of Appeals. (The state won its case in the New York State Supreme Court and the decision was affirmed in the Appellate Division.)

In addition, the New York State Legislature passed a statute which prohibited the operation of for-profit abortion agencies. This statute has been upheld by a panel of three federal judges convened to hear the case.

The non-profit abortion referral agencies, which neither split fees nor advertise specific doctors, may continue to operate. In this case, the merits of the public sector over the private one, for this kind of service, are particularly evident.

These brief comments on relative quality of services may seem gratuitous, especially to those familiar with the complexities of making full-fledged evaluative studies. However, only few such studies have been undertaken, and hence statements which compare the merits of doing things one way or another are necessarily tentative, until more studies are conducted.

Of course, not all third sector beings are superior on all counts, as is illustrated by the New York Triboro Bridge and Tunnel Authority. The Authority is reported to use its monopoly power to generate excessive income and keep its facilities in unnecessarily good condition. The New York Port Authority is certainly not known for its efficiency. Maybe the reason is that most of these ineffective bodies, within the third sector, are on the less "privatized," more "governmental" side.

Two Success Stories

Those third sector beings which have been relatively more "privatized" seem to be, on balance, much more successful. Two major cases in point are COMSAT and Fannie Mae.

Fannie Mae

Fannie Mae (or FNMA) which stands for the Federal National Mortgage Association, is reported in the press daily as a high volume stock on the New York Stock Exchange. But it is far from just another stock of a typical corporation. (Even technically it has had a special status which reflects its government support: until April 1971 the "margin" required for it was much lower than for other common stocks; it was closer to that required for government bonds.) Originally a government agency, which issued some non-voting stocks to the public, with the balance being funded by the treasury, it was "privatized" in 1968. All the stocks were sold to the public and made into voting stocks which elect up to 10 of the 15 board members (the rest being appointed by the Secretary of HUD).

However, about one-third of Fannie Mae's volatile stock is owned by companies involved in housing-related industries; they are, for the most part, the mortgage bankers with whom Fannie Mae does a major part of its business.

Fannie Mae now ranks as the eighth largest corporation in the United States. Its aim has been to meet the public's need for housing by providing a secondary market for government-insured mortgages.

Investment-wise, Fannie Mae is a unique animal. One reason is the complex nature of its earnings. Despite the fact that there has probably never been a company on which more information was available, the variables are so great that a line-by-line prediction is extremely difficult to make. Management stresses that when one component such as fees goes one way, another element, perhaps the sale of mortgages, will move in the opposite direction.

Skeptics insist that Fannie Mae is a near monopoly, government-sponsored and controlled, which will never be allowed to earn more than a public utility or other regulated companies. If Congress thinks Fannie Mae is
making too much money, they say, it could intervene and change the charter of the company. Further, the Secretary of HUD, George Romney, holds the power to narrow or broaden the ratio of debt to equity.27

While there are clearly a number of problems like these that potential investors in Fannie Mae must take into account, it is also clear that Fannie Mae has made money available to potential home buyers in a time of tight credit and high interest rates. For example, Fannie Mae’s “net new business in 1970 totaled 25 per cent of U.S. residential mortgage credit. Moreover, in 1969 and 1970, Fannie Mae helped boost FHA and VA financed housing starts 140 per cent, while conventional starts declined 7 per cent."28

In the last few years, Fannie Mae has been trying to balance its responsibility to the public with its responsibility to achieve stable returns for its stockholders. In the process Fannie Mae has been reorganized in a more efficient manner by cutting its staff substantially as the volume of work rose.

Comsat

The Communications Satellite Corporation, known as Comsat, was created by the government through a congressional act in 1962. Federal money appropriated for defense and space financed the development of its chief technology—the world-hugging satellites. Civilian use was made possible through a corporation financed half by the public and half by the commercial communications companies. Comsat’s board of directors includes representatives of the industries involved, presidential-appointed directors, and public officials. The Economist referred to orbiting a worldwide system within seven years, as “magnificent.”29

Conclusion

Surely other third types, either to be composed of government and business elements or third sector beings from inception, can be identified, and others could be evolved if there were greater experimentation. There is no doubt that we need more information and evaluation on the production of public goods in the various sectors and mixes of sectors. But it seems that enough is known for us to be able to state now that greater reliance on the third sector, both as a way of reducing government on all levels and as a way of involving the private sector in the service of domestic missions, would be significantly more effective than either expanding the federal or other levels of government or dropping them on the private sector.

Notes

2. For example, see Zbigniew Brzezinski and Samuel P. Huntington, Political Power: USA/USSR (New York: The Viking Press, 1964).
6. Ibid., p. 168.
10. The figures and estimates have been reported in the Chronicle of Higher Education based on Office of Education figures.
18. Ibid.
20. Reprints of this unpublished report may be obtained from the Center for Policy Research, Inc., 475 Riverside Drive, New York, New York 10027.

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AN ORGANIZED SOCIETY?

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A few years ago I edited a volume of essays entitled *A Great Society*? and the answer to the question was, "Hardly." In this article the question is, "An Organized Society?" And my answer is, "Probably." In articulating this answer I shall use polite terms only without drawing on any of the nasty words I have used in some recent writings on trends toward a new collectivism in America.1

The story is told that on Gertrude Stein's last visit to the United States, she was taken for a drive on the highways and was asked, "What do you think?" She replied, "Well, you certainly get there faster, but there's no there there." The burden of this article, as a possible response to Gertrude Stein is: "There may be a There there, but it is probably a There that most of us would prefer we not get to so fast."

Two Forms of the "Organized Society"

Now the There I am thinking of is a very flexible, modernistic, high-technology There. It is an "Organized Society" that cannot be pinned down to any single prefabricated, fully programmed form. But there are two distinct sets of possibilities.

The first is a tighter and more expansionist form of oligarchic Welfare State Capitalism, with a consolidation and strengthening of the "free world" empire. Despite the confusing readjustments among the United States, Japan, and Western Europe, I think the current confusion is temporary.

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