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The Substantial Difference Between USA and EU Welfare

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Abstract

This comparative study explores the substantial differences in nonprofit organizations (NPOs) between the United States and Europe, examining their historical origins, operational frameworks, and roles within distinct welfare models. By analyzing the socio-economic contexts of liberal, corporatist-conservative, and social-democratic welfare systems, the research highlights how cultural, political, and economic factors shape the development and functioning of NPOs in different regions. The study reveals contrasting approaches to nonprofit sustainability, tax policies, and social service provision, with the U.S. model emphasizing market-driven efficiency and individual responsibility, while European models prioritize universal access, solidarity, and collaborative welfare provision. Through a comprehensive examination of organizational structures, funding mechanisms, and societal contributions, the research illuminates the unique characteristics of nonprofit sectors in these regions and proposes future research directions for measuring their economic and social impact.

Keywords: nonprofit organizations, welfare models, comparative nonprofit sector, social economy, welfare capitalism, third sector, civil society, social welfare, nonprofit sustainability, philanthropic strategies

Introduction

The term "non-profit" originated in the United States, coined by profit-oriented entrepreneurs to describe organizations without profit-making goals, created as an alternative to traditional businesses. This distinction, typical of a capitalist context,

remains the foundation of the terminology "non-profit" (NPO[1]), which is still widely used today. In Europe, by contrast, the third sector has historically been associated with the socio-political dimension rather than the economic one, reflecting a perspective where NPOs collaborate with the state rather than compete with it. Esping-Andersen[2] highlighted that, in the liberal welfare model[3] of the United States and the United Kingdom, NPOs act as an alternative to the state. In Italy, however, the sector is part of the "civil economy"; in France, it is known as the "social economy," while in Great Britain, a distinction is made between the "non-profit sector" and the "voluntary sector."

The European Commission introduced the concept of the "third system[4]" to represent the variety within these organizations, illustrating disparities not only in terminology but also in perspectives on the activities within the sector. This diversity creates complexities in regulating and evaluating economic resources, which vary according to the national systems within which NPOs operate[5].

Even today, the literature lacks a shared language to fully describe these entities[6], but as Adam Smith[7] suggested, the market economy needs a plurality of actors in order to grow and progress.

1. The different origins of the EU social market and the US civil market. One of the causes of the confusion between American and European civil society lies in the sharp difference between the various organisations, not only between but also within countries. Indeed, sometimes there is more variety within a single country than differences between one market and another. One of the aspects of the American non-profit scene is that it is not evenly developed and consequently not equally specialised.

By way of example, with reference to disparities, when we contemplate American non-profit society and European civil society, what truly differentiates the ambit of these organisations in their markets is great variation from place to place. The literature suggests that they do not have the same roles, operate in the same way or

[1] In China, one cannot talk of non-profit organisations due to the absence of profit, despite recent trends towards a capitalist market.

[2]) For more detail see Espin Andersen G., 1990; Benassi D., 2002; Preite G., 2011; Vella M., 2018.

[3]) According to Esping-Andersen (1990), the long expansive period of Keynesian capitalism saw the consolidation of three distinct welfare regimes: conservative-corporative, social-democratic and liberal. The latter was associated with anglophone countries USA, Canada, Australia, UK and Ireland. It envisages a system of social protection of limited and modest performance, reduction of State tasks to a minimum and sharp individualisation of risks, which however facilitates restructuring, specialisation and professionalisation.

[4]) For more detail see European Commission, "A project for Europe", 1978.

[5]) For more detail see European Commission, "A project for Europe", 1978.

[6]) For more detail, see Salamon L. (with Anheier H.K., List R. et al.), 1999.

[7]) For more detail, see Smith A., re-editions of 1778, 1784, 1786 and 1789, Edizione italiana UTET, Torino, 1996.

have the same characteristics and objectives in the different states of America. The same happens in the Italian internal market. For example, the cooperatives of Emilia-Romagna, Tuscany and other Italian Regions do not have the same management, organisation or financial particularities or the same prevalent ambit of economic activity, although they all pursue the aim of social utility. The difference is therefore how they exercise their activity,[1] since the differences between one place and another depend on their historical, social, economic and cultural heritages. This is the essence of the "Theory of the social origins of the third sector"[2] that explain the relation between the competences, roles and persons who work in non-government organisations and in non-profit institutions of a socio-economic nature, that vary from place to place, even in a given territory. This theory aims to show the link between social, historical and cultural factors, which together with the contribution of the social classes and religious organisations, have historically played a fundamental role in the development of the different countries.

It is therefore preferable to speak of civil society organisations, a neutral expression common to all the countries of the world, albeit their different characteristics[3] in the US and Europe. These organisations are progressively becoming co-protagonists in the public and private action of both markets, with the differences that we shall soon see.

To understand these institutions let us first endeavour to capture their common elements in order to understand what they resemble and their real structure.

Voluntary organisations, organisations of the civil economy, non-profit organisations and organisations of the European social economy: what are they?
First of all they are all "organisations", a sociological concept, with a structure, term and leadership. Their organisational nature may however vary since they may be associations, cooperatives, health mutuals, foundations, unions etc. and in the American and European context they do not require legal recognition in certain cases because they may also be informal organisations.

1) For more detail, see Zamagni S., 2005.
2) For more detail on the "Theory of the social origins of the third sector" see de Mandeville B., 1723; Barr N., 1993, De Vincenti C., Montebugnoli A. (eds), 1997.
3 In his famous work "*De la démocratie en Amérique*" (1835), Tocqueville A., philospher, politician, historian, jurist, magistrate and forerunner of sociology, claimed that the French and American Revolutions had nothing in common since the former engendered violence and terror, whereas the latter gave birth to freedom and democracy. The first volume, more political, is concerned with democracy as a political structure, the second, more sociological, with the influence of democracy on civil society, i.e. on customs, ideas and intellectual life.

Indeed, in the USA, government approval is not always necessary. For example, a group of persons can unite and draft the basis for achieving a common objective, they can even create currency without need for approval.

In Europe and the United Kingdom freedom of association is recognised (as in Italy), but the right of association is not codified and there is no commonly accepted legal definition of non-profit organisation. This is not considered a lack but an advantage, because it enables more flexible and adaptable organisations to be set up.

A particular feature in the UK is the *charity* category[1] that comes with tax reductions; in Italy, the reform of 2017 prefers the terms third-sector organisation and social enterprise for extending these restrictions (on the distribution of dividends) and facilitations (tax reductions and national and community funding) foreseen for other categories[2]. Indeed, as in Italy, fuzzy borders between sectors and new organisational models have made it difficult to maintain definite limits. However, there is a common denominator of trust that the term itself tends to elicit in European public opinion (a non-negligible factor) that attracts many donations from the market.

1.1. Consequences of disparities in USA-EU welfare models. To clarify the role of non-profit organizations within the different welfare models described by Esping-Andersen, let's expand on how each welfare model aligns with the non-profit sector's role in the United States and Europe. It follows that the substantial difference between the two markets springs from their origins and from the difference between *welfare capitalism* and *welfare state*. In the US marker former dates back to 1919 and Henry Ford, the forefather of welfare, with introduction of the "principle of restitution" of surplus of firms also to workers, instead of solely to shareholders. Typical of the American cultural model, the principle envisages restitution of part of company profit to the workers who took part in making it. However, Ford's position clashed with the opinion of majority shareholder Dodge and other minor shareholders, who were convinced that the firm should only be concerned with shareholder dividends, i.e. those of financers, ignoring the essential role of workers for company success. This position was also confirmed by the US Supreme Court, which upheld the argument of minority shareholders, recognising the need to remunerate shareholders only by increasing share dividends. But Ford's proposal was not ignored: it began to spread and to find consensus in many other industrial and entrepreneurial environments which were developing a different attitude to the fate of their employees and to worker participation in production. Major American entrepreneurs (David Rockefeller, Henry Ford, Andrew Carnegie and others of less renown) signed a pact

[1]) Irrespective of internal structure, any voluntary organisation can be called a *charity* if its charitable status, i.e. its essentially solidary role in the management of institutional activities, exclusively for the benefit of society, is officially recognised.
[2]) For more detail see Vella M., 2019.

and pledged to take care of their employees and their families according to the principle of restitution.

These new concepts spread rapidly in the USA, giving rise to many considerations on the problems of labour, worker living conditions and above all the need to pay attention to the risks faced daily by workers in the workplace while contributing to achieving the goals of the firm. All this happened in the US, where from the outset, economic development was completely different from that in Europe. This depended on differences in the institutional system, the dominant ideology, as well as social and political history, which were objectively antithetical to those of Europe. The American spirit of individualism explains the different aims pursued in the US, generating welfare capitalism that postulated a selective, voluntary type of principle of restitution, rather than a universal type, i.e. one with effects on the whole population. Over the years, this model continued to spread in the US and was promoted by many non-profit organisations that began to interact with profit organisations in such a way as to win the loyalty of the American people. The strength of this type of welfare was its efficiency, while its weakness was its limited nature, since it was not universal but only protected the employees of certain virtuous firms.

American welfare was exported to Europe[1] twenty years later in the late 19th century and an implicit defect of this experience, immediately evident, was its particularistic nature, since the "pact" did not hold towards all components of the community. The European liberal spirit favoured introduction of the concept of worker welfare and a system of protection complementary to traditional family solidarity and to the activity hitherto conducted by religious organisations and mutual societies. As Keynes wrote in 1939, welfare, to be welfare, must be universal. In Europe, this marked the origin of the welfare state for the whole population that recognised certain risks, to which individuals and families are exposed, as social risks.

Esping-Andersen's typology of welfare in european market defined in *The Three Worlds of Welfare Capitalism*, identifies three main models of welfare: liberal, corporatist-conservative, and social-democratic. Each of these models provides a unique context in which non-profit organizations operate differently, especially across the United States and Europe[2].

1. **Liberal Welfare Model (USA and UK)**: in countries like the United States and the United Kingdom, the liberal model of welfare emphasizes market

[1]) A first immature form of social state had already been introduced in England in 1601 with promulgation of the *Poor Laws*, that envisage help to the needy when family is unable to provide.

[2]) Historically, mutualistic associations of workers in England and France (18th-19th century) sprang from worker struggles, giving rise to social security systems for the population. The European Welfare State marks the start of a new third sector involving voluntary work and social cooperation, more evident in Italy after WW2.

solutions over state interventions and promotes individual responsibility[1]. This approach results in a limited role for the state in providing welfare services, which instead are often supplied by private entities or non-profits. In this context, non-profit organizations serve as an *alternative* to state services, especially for social and healthcare services not widely accessible through the government. Due to a lack of universal coverage, non-profits often fill the gaps in social services by providing healthcare, education, and support for underserved populations. This model fosters a competitive, market-oriented environment for non-profits, which also drives innovation and cost-effectiveness but limits the scope of universal access.

2. **Corporatist-Conservative Model (Central Europe)**: countries like Germany, Austria, and France have corporatist-conservative welfare states that are highly structured around the preservation of status distinctions and family values, with social welfare benefits often tied to employment. Here, non-profit organizations often work alongside the state to provide services, particularly those related to family welfare and employment-linked benefits. The non-profit sector in these countries generally collaborates with public and private sector entities, offering a more structured and integrated approach to social welfare compared to the liberal model. This model also sees the non-profit sector as an extension of state welfare, providing support that complements rather than replaces state services, which allows for both universal access and a strong welfare safety net.
3. **Social-Democratic Model (Nordic Countries)**: in Scandinavian countries like Sweden, Norway, and Denmark, the social-democratic welfare model is based on principles of universalism and extensive state responsibility in ensuring citizens' welfare. Welfare services are heavily state-funded and universally accessible, reducing the necessity for a large non-profit sector focused on welfare provision. However, non-profits still play a crucial role in areas like community development, environmental advocacy, and culture. In these countries, the non-profit sector often supports activities that enhance civic engagement and social cohesion, rather than filling gaps left by the state, as universal welfare provision minimizes social inequality.
4. **Hybrid Model in Southern Europe (Italy, Spain, Portugal)**: Italy and other Southern European countries display a more hybrid approach, incorporating elements from both the corporatist and social-democratic models. In Italy, non-profits are recognized as part of the “civil economy” and contribute to public welfare in collaboration with the state, especially given recent economic crises that have pressured the welfare state to adapt. The Italian

[1]) A first immature form of social state had already been introduced in England in 1601 with promulgation of the *Poor Laws*, that envisage help to the needy when family is unable to provide.

non-profit sector often steps in to provide social, health, and educational services, working within a framework of solidarity and community involvement that reflects a historical commitment to social cohesion and civic responsibility.

These models illustrate how non-profits are integrated into each system in ways that reflect national philosophies about welfare:

- **In the US** (liberal model), the non-profit sector often operates independently of the state and emphasizes *market-driven efficiencies*, while also striving to fill gaps where government support is lacking.
- **In Europe** (corporatist and social-democratic models), non-profits frequently collaborate closely with government institutions to enhance social services, supported by a higher level of public funding and regulated integration into the welfare state.

Understanding these distinctions clarifies why non-profits in the US focus more on *self-sustainability and innovation* to attract private donations, while European non-profits are more deeply embedded in social policy, serving as partners in universal welfare provision. Each model shapes the operational strategies, funding structures, and public perceptions of the non-profit sector within these regions, highlighting that a one-size-fits-all approach to non-profit roles in welfare systems is unfeasible due to these fundamental differences.

To visually summarize the main differences between welfare models and the role of non-profit organizations in the United States and Europe, we propose a table to compare the key characteristics and highlight how the redistribution of profits and efficiency are fundamental in the US model, while social utility and solidarity prevail in European non-profit organizations.

Comparison of Welfare Models and Roles of the Non-Profit Sector

Characteristic	USA Model (Liberal)	European Model (Corporate/Social-democratic)
Main Welfare Objective	Efficiency and sustainability; alternative to the State	Universal access; support to State welfare
Profit Redistribution	Partial, oriented towards workers in certain companies	Oriented towards social utility, non-profit
Role of Non-Profit Organizations	Filling gaps in state social services	Collaborating as partners of state welfare
Core Principle	Individual responsibility, market efficiency	Solidarity, equal access, and social rights for all
State Involvement	Limited, supported by private initiatives	High, with regulated and state-funded non-profits

Characteristic	USA Model (Liberal)	European Model (Corporate/Social-democratic)
Historical Origin	Welfare capitalism (early 20th century, USA)	Universal welfare and European welfare state
Additional Goals	Innovation and economic self-sufficiency of NPOs	Social integration, advocacy, and community participation

2. Operational and Sustainability of Nonprofit Organizations: USA vs Europe. To complement the discussion on the operational limitations of US nonprofit organizations, it is useful to analyze how similar constraints, or their absence impact the operations and sustainability of nonprofit organizations in Europe. Let's start from Non-Distribution Constraint in the USA

In the United States, the non-distribution constraint is central and strictly enforced: non-profit organizations cannot distribute profits to members, managers or workers, even if they can generate significant profits. This constraint clearly distinguishes non-profit organizations from for-profit ones, since, while allowing profit, it prohibits its redistribution among stakeholders. This criterion creates internal economic sustainability, as profits must be reinvested, but limits the possibility of attracting private investors interested in direct earnings. As a result, US nonprofits tend to rely on donations, grants, and self-funding to ensure long-term sustainability.

Less Strict Constraints in Europe and Impact on Sustainability In Europe, the non-distribution constraint is present but generally less stringent than in the American context, with some exceptions depending on national regulations. This aspect allows several European organizations to operate within a more flexible framework. For example, in some European countries, organizations can enter into profit-nonprofit partnerships or distribute part of the profits to members without losing their non-profit status, as long as their core mission remains socially beneficial. This more flexible approach helps foster collaboration between sectors, contributing to the sustainability of European organizations and allowing them to integrate funding from private and public.

From the comparison we can deduce some considerations on sustainability:

- United States: Nonprofit organizations rely on internal resources, donations, and public funding to maintain their sustainability. The non-distribution constraint offers a clear definition of the sector, but limits the possibilities for expansion through private capital.

- Europe: Flexibility in profit distribution rules and in the definition of "non-profit" allows organizations to diversify funding, promoting

sustainability that is often superior to the American model, especially in areas where the State and the private sector actively collaborate.

These differences in approach show how the non-distribution constraint, present in both contexts but with different intensity, influences not only the daily operations of non-profit organizations but also their possibilities for long-term sustainability and growth.

2.1. **Functional aspects of US non-profit organisations.** Functionally (concerning their goals), the term NPO in America includes a broad range of organisations that can be distinguished into two macro-categories, *Mutual Service* and *Public Service,* on the basis of their goals.[1]

The former have public utility aims and include a significant number of associations, such as cooperatives, workers' associations, trade associations and unions, namely groups that collaborative groups, non-government organisations and mutual associations legally recognised as NPOs. These organisations, together with market and trade associations, can be considered social welfare organisations because they operate exclusively for the promotion of the common good and the general well-being of the population and their communities. Indeed, they are also important in the sphere of social services: about 80% of services to American families and children are provided by non-profit organisations. The same applies in the world of culture, especially high level culture which includes opera theatres and symphony orchestras.[2] On the whole, the category can take an active part in public debate, wielding a certain influence in political life, provided that does not become its primary objective (they cannot spend more than 50% of their funds in politics) and they have special taxation status. They spring from the idea that active democracy requires organised action by common people. They are therefore given the opportunity to organise and express themselves publicly through representatives to the government.[3] That these organisations are conceived to provide a public service is demonstrated by the fact that they have special taxation status with exemptions from paying a percentage of their commercial incomes because they have public aims, namely election of persons with decisional capacity to political office. This is why they can be either *mutual-serving* or *public-serving*. The intermixing of public- and mutual-serving is encountered for example in cemetery associations which are of two recognised types. The first are mutual and must be "owned and managed exclusively for the benefit of the owners" who hold lots for burial in good faith (not for resale) or for the poor (as a charity); the others (public non-profit cemetery associations) must

1) In Italy, social cooperation effectively unites these two aims in a single subject (Zamagni S., 2013).
2) Fifty-five percent of the biggest theatres and 93% of US symphony orchestras are organised and managed by non-profit organisations.
3) From a financial point of view, they make an important contribution to political campaigns which are funded among others by taxes paid to provide a benefit to the population through a public service.

be exclusively for burying or cremating the bodies of oneself or one's family. Any net earnings cannot be distributed to private persons but must go to activities for the cemetery, such as maintenance and improvements, purchase of cemetery space, and so forth. Thus public-serving organisations pursue the collective well-being, but their main mission is to do so above all for their members.

In the US, there are about 1,600,000 formal organisations that come under the name of *social economy voluntary third sector,* to which another six or seven million informal organisations can be added. Of these, which we can define as legal, 400,000 are basically service organisations of many different types, whose members may be lawyers, doctors, bank employees, steel industries (business and professional associations) or are simply clubs in which Americans get together for social and cultural purposes, to form mutual (commercial) associations, a public objective which is encouraged with tax exemptions. In these organisations, members must share interests and a common objective (aimed at well-being and recreation) and the organisation must promote contact opportunities among members and their guests.[1] No more than 35% of their gross revenue can come from non-members and no more than 15% of use of the structures and services can be public. Such service associations also include a significant number of cooperatives and organisations with different kinds of collective well-being as objective. Those pursuing social public utility, founded to serve a vast public, have tax reductions for most costs and the advantage of being able to receive tax-deductible donations from the public sector and the world of cooperation. A determinant role in the sphere of public services can be found for example in the management of schools for children and young people (as in the case of universities and colleges) and in elderly care.

Although the *labour unions* belong to this sector, they are considered a separate category from public service organisations. We have a first example in the 19th century. The advantages cannot go to a specific member but only to the community for common interests, and the rules vary according to the type of organisation. For example, an agricultural organisation can provide financial assistance to its members in order to improve the conditions of those who farm in general. Voluntary associations of employees[2] must be founded by members with the same profession or subjects who associate in order to provide mutual assistance and promote a common cause (fraternal charities).

The public service area also includes special institutions aimed at raising funds to finance the non-government sector. This category includes foundations, important in

[1]) Among the best known are alumni associations of university graduates, university fraternities and sororities, country clubs, amator sporting clubs, hobby clubs and so forth.

[2]) The association must have written documentation of the following requisites: admission and membership standards and procedures, types of membership and rights and privileges of members who must have a common bond based on religious belief, gender, occupation, ethnic group, shared values etc.

America, that pursue the objective of distributing the proceeds of private donations to other organisation in the non-profit sector. Some of the 40,000 foundations in the US are very big.[1] They usually represent the wealth of private persons who entrust a donation to the State. Distribution of donations is usually managed by staff that offer guarantees of trustworthiness to other organisations of the sector.

The other 35,000 private foundations may be:

- *Cultural Foundations:* these are limited but resemble the European counterpart in that they renounce rents and pursue/broadcast educational or university programmes;

- *Cooperative Foundations:* these engender collaboration between private persons with common interests to manage financial resources democratically towards a common objective;

- *Community Foundations* financed not only by individuals but by a particular community that provides donations to an institute for solving problems in a given geographical area;[2]

- *Federated Funders*, autonomous foundations specialised by sector, the purpose of which is to gather finance from the public sector for given objectives[3] with the help of thousands of professional *fundraisers*, specialised in raising money for social aims.

In recent years, aware that their programmes were not always able to find solutions to increasingly complex social problems, the American foundations began sustaining organisations with know-how for a strategic market approach. Thus a strategic-giving qualitative model, not limited to the simple provision of finance but committed to rendering fundraising effective through innovative financial activity, is becoming more common.[4]

With respect to the traditional operational foundations model, that invests in its own projects according to its mission, community foundations aim for *social improvement*, investing financial resources to sustain activities that can vitalise areas and communities. After admitting substantial failure of the single-solutions approach, the current trend of American philanthropy is to sustain worthy causes (advocacy), which is proving to be an extremely effective objective.

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1) For example, the *Rockfeller Foundation* which while representing 1% of the market, controls 70%.
2) Foundations that work in this direction include the *New York Community Foundation* and the *Chicago Community Foundation*.
3) Such as cancer research and care for patients with cardiovasculare diseases and diabetes. For example the American Association for Diabetes endeavours to attract financial resources for diabetes research from the public sphere by *fundraising* campaigns.
4) This management method may have favoured the recent 9.9% surge in *community foundations* seeking solutions to needs generated by the crisis.

In parallel, we are witnessing the spread of *venture philanthropy*, an innovative new form of social investment in which the donor does not simply provide resources but also participates in the management and risk, transferring the monetary resources and know-how necessary for the success of the initiative, to the beneficiary. This feature of the overall development of non-profit organisations is occurring with the rapid affirmation of "social enterprises", i.e. firms active in the market, pursuing the mission of producing goods of social utility, while maintaining a non-profit characteristic consisting in a common-objective constraint, and in the limited distribution of proceeds. The exponential growth of such enterprises (also in Italy, since the reform) is explained by the convergence of two factors: increasing demand for social goods and the maturity of many non-profit organisations in the front line of the response to new and old needs of the community and having know-how allowing innovation of product and process.

2.2. **Tax fiscal aspects of US Nonprofit Organizations.** Nonprofit organizations (NPOs) in the United States are not entirely exempt from taxes but receive significant tax benefits[1]. Depending on their nature, many organizations are entitled to reduced taxes or exemptions due to legislation that recognizes the value of collective service and private initiative for public welfare[2]. In the US, these benefits are applied at the local level, with considerable variations based on decisions by individual states and political leaders[3].

The US tax system recognizes 26 categories of tax-exempt nonprofits, each with different benefits and regulations. The law primarily distinguishes between two types of NPOs under section 501(c)(3) of the Internal Revenue Service[4] (IRS[5]) regulations, a register of legally recognised subjects, that explains their characteristics, including

[1]) American *tax exempt organizations* correspond to European non-profit organisations.

[2]) Barak Obama created the *Social Innovation Fund*, a new programme that supported the growth of the non-profit market and funded associations for the recruitment and training of new volunteers. He also set up the *White House Office of Social Innovation and Civic Partecipation* for the promotion of voluntary organisations.

[3]) These organisations have five characteristics: they are organisations, they are non-government, they do not distribute profits, they are *soft governing* (i.e. managed to meet collective needs) and they receive public benefits.

[4]) IRS is the US Federal Government Internal Revenue Service, an office of the US Department of the Treasury directed by the Commissioner of the IRS (who is nominated by the President of the United States with a five-year mandate). The service is responsible for collecting taxes and managing the Internal Revenue Code (the main chapter of federal tax law). Its duties include taxation assistence to contributors and pursuing and solving taxation errors and fraud. IRS also supervises various benefit programmes.

[5] The IRS publication *Tax-Exempt Status for Your Organization* lists the categories of no-profit organisation and illustrates tax laws (e.g. exemptions), deposit requirements and information on donations deductible from income tax.

of course tax exemptions. In this category, there are more than 30 types of organisation, including religious associations, hospitals, museums, private schools, scientific research organisations (in the public charities subgroup) and private foundations, which as already mentioned, do not always provide a public service and are generally financed by private or family capital.

American associations are classified for taxation purposes according to their non-profit function or the existence of a non-profit group containing many other types of organisation of the same kind, albeit subject to different taxation rules, depending on their specific features.

Charities are the most common type of non-profit organisation in the country. They belong to type 1 501 (c) (3) of the IRS regulations and do not pay federal income tax. The term "charity" includes a wide range of organisations distinguished as follows:

1. *Public Charitable Organizations*: these include hospitals, museums, private schools, scientific research entities, and religious organizations. An example is the American Red Cross, which provides humanitarian aid and receives tax-deductible donations. Their tax exemption is guaranteed because they offer services to the community, similar to European NPOs that provide public assistance.
2. *Private Foundations*: these organizations, such as the Bill and Melinda Gates Foundation, rely on private funding from families or individuals and provide grants to support social causes. These entities do not always offer direct public services but contribute to funding projects of collective interest.

Categories and Functions:

Type 1: Charitable Organizations (501(c)(3)) [1]: including hospitals and schools, are exempt from federal income tax and cover a wide range of purposes, such as:

- Charity
- Education
- Literature and science
- Public safety promotion and amateur sports
- Prevention of cruelty to children and animals

These organizations, like their European counterparts, can issue tax-deductible receipts for donations, encouraging philanthropic support.

[1]) Many American states refer to section 501 (c) to identify state-tax-exempt organisations that may receive unlimited contributions from individuals, companies and unions.

Type 2: Private Foundations: notable examples such as the Bill and Melinda Gates Foundation and the Donald J. Trump Foundation created in 1987 and dissolved in late 2016 for conflict of interest by the Attorney General of New York, Barbara Underwood. Foundation funds had been used for Trump's personal and political benefit:[1] "*This is an important victory for the rule of law, making clear that there is one set of rules for everyon.*"[2].

Unlike public charitable organizations, they do not provide direct services but fund impactful programs. In Europe, similar private foundations, such as the Cariplo Foundation in Italy, are also tax-exempt, though regulations in Europe are generally more restrictive than in the U.S. to ensure transparency in fund usage.

Type 3: Public Charities: these collect funds through public funding agencies or affiliations. One example is United Way, which supports a wide range of social services. European counterparts, such as Volunteer Service Centers (CSV) in Italy, also receive funds from the government or public contributions, although tax exemptions vary by country.

Other NPO Categories (non-501(c)(3)): some nonprofit organizations, while still nonprofit, do not fall under section 501(c)(3) and operate under specific tax requirements:

- Political Advocacy Groups (501(c)(4)) influence public policies. Examples include American Civil Liberties Union (ACLU) and National Rifle Association (NRA), which can collect funds but do not enjoy the same tax exemptions as charitable organizations.
- Trade Associations and recreational clubs provide benefits to members and do not have access to the same exemptions as charitable organizations.
- Business leagues focus on employee welfare and resemble trade associations in Europe, albeit with greater tax benefits in the U.S.

In Europe, NPOs are generally subject to more rigorous tax regulations aimed at limiting the misuse of tax benefits. For example, charitable organizations in Italy and Germany receive exemptions but must clearly demonstrate the social use of funds.

[1]) The foundation was accused by the attorney general, Barbara Underwood, of "functioning as little more than a checkbook to serve Mr. Trump's business and political interests" and of engaging in "a shocking pattern of illegality" that included unlawfully coordinating with Mr. Trump's 2016 presidential campaign. The Foundation was dissolved when Trump won the 2016 presidential elections and was forced to pay millions in restitution and penalties. https://www.nytimes.com/2018/12/18/nyregion/ny-ag-underwood-trump-foundation.html

[2]) The federal law bans charities from taking part in political campaigns. Once President, Trump repeatedly requested abrogation of this law. https://www.nytimes.com/2018/12/18/nyregion/ny-ag-underwood-trump-foundation.html

The European model emphasizes stricter fiscal oversight to ensure that exemptions benefit entities that provide public services. In the United States, by contrast, the tax system is more flexible and encourages philanthropy through tax deductions for donations. American private foundations thus have more freedom to operate compared to the constraints in Europe, where many regulations require greater transparency and limit the use of funds.

In conclusion, tax policies in the United States allow for a variety of organizational models with different levels of tax exemption, reflecting a system that rewards private initiative for collective welfare. However, this also raises the risk of fund misuse, as illustrated by well-known cases of abuse. In Europe, the approach is more restrictive and aims to ensure that tax exemptions benefit organizations focused on public service.

3. Application of the US method to assessment of the non-profit economy in Europe. In the economic literature, assessment of the performance of these organisations is still based on *output* (efficiency of the finished product or performance in the case of services) rather than *outcome* (efficacy of a service for the recipient or in sustaining worthy causes).

European culture adds evaluation in a context of circular welfare to these requisites, in the sense that the participation of subjects (as volunteers, members, workers or users) is itself of inestimable social value, but as we know, there is no statistical correlation between maximisation of output (a quantitative variable) and improvement of the welfare of the recipient (a qualitative variable). For example, if we consider healthcare, output or the number of home visits can be maximised but this does not necessarily improve user welfare. Indeed, we know that health and most NPO services are typical *relational goods*) that cannot be measured in terms of efficiency (*output* assessment) but call for the metric of efficacy, i.e. of *outcome*. It is therefore necessary to assess whether the service effectively meets the welfare needs of the subject. In other words, while the efficiency of NPOs is not unimportant, it must be associated with a parameter that reveals the efficacy of the result of the organisation in civil society.[1] In any case, we still lack appropriate metrics for efficacy and we persist in pursuing the objective of efficiency when assessing performance and in statistical and economic methods. As a consequence, we are still measuring *output* instead of *outcome* and when local government has to outsource a service, it continues to use the former criterion. If we persist in doing so, we persist in the error of estimating results (*output*) in terms of *outcome,* without considering the dynamics that generated them, their causal interaction with structural elements and processes and with the other effects generated. This is why in Italy and Europe, we often use the quantitative *Social Return on Investment* (SROI), as proposed by the US literature. It is

[1]) A civil society organisation cannot be asked to maximise output because it would cause isomorphism towards non-profit organisations, destroying the very idea of civil society organisation.

one of the best tested and widespread methods at international level, especially for assessing the social impact of social enterprises occurring in markets where social funding and innovative instruments (such as social bonds, introduced in Italy with the reform and with ethical finance) call for specific accounting of the social impact of investments. In fact the objective of the indicator is to calculate the economic return on funding received by the organisation, in terms of the ratio of finance to result, thus monetising quali-quantitative aspects of the organisation's activity. Although SROI is quite widely used at international level, it is still criticised from a scientific viewpoint.[1]

3.1. The prospects of non-profits in US and European markets. In recent years, the U.S. nonprofit sector has seen a shift, with many nonprofit hospitals and organizations in other economic sectors increasingly operating on a "for-profit" basis. In the U.S., there is a clear trend of nonprofits moving towards profit-oriented models, often due to the pressure of efficiency metrics. If a for-profit organization can demonstrate greater efficiency than a nonprofit, the latter may be at risk of closure, given that for-profit entities have more strategic and competitive advantages, particularly in financial, managerial, and innovative capabilities. This could eventually lead to a scenario where nonprofits are rendered redundant, as public administrations could improve and rationalize their own services while for-profit enterprises could adopt more socially responsible practices.

This shift is underpinned by economist H. Hansmann's "market failure theory" (1980), which posits that nonprofits emerge as a response to the failure of contracts between consumers and for-profit organizations when information asymmetry creates distrust. According to Hansmann, this dynamic is especially relevant in sectors where funders do not directly benefit from the services, as the nondistribution constraint in nonprofits acts as a trust guarantee. However, Hansmann has also suggested that nonprofits are transitional "functional substitutes," likely to disappear eventually as society finds more efficient alternatives,[2].

This process is actually already evident in R.D. Putnam's essay work, *Bowling Alone: America's Declining Social Capital* (2000)[3], highlighted how some U.S. third-sector organizations have seen declining membership, attributed to diminishing civic engagement and trust in government. This decline in social capital is visible in the reduced involvement in civic associations, political participation, and public assemblies. Since the 2000s, the U.S. has adopted an ambivalent stance toward nonprofits, tightening fiscal control with increased taxes and deficit reduction, while also recognizing nonprofits' potential to contribute to economic and social resilience.

[1]) For more detail, see Vella M., 2019.
[2]) According to Hansmann, non-profit organisations hide a double failure: of the market and the State. This means that NPOs will disappear the day public failure is settled.
[3]) In *"Bowling Alone: America's Declining Social Capital,"* Putnam examines the decline of US social capital since 1950.

As a result, American nonprofits have adopted increasingly business-like strategic management, making the boundaries between nonprofit and for-profit sectors more fluid.

In contrast, in European markets, civil society has taken on a highly visible role, particularly during crises such as COVID-19. During the pandemic, European nonprofits, alongside public entities, worked towards community and societal welfare, motivated not by economic reasons but by the need to meet the pressing social challenges of modern society. This has underscored the capacity of European nonprofits to address crises in a way that prioritizes community well-being over profitability.

European countries face unique challenges in sustaining their welfare systems, particularly as demand for social services grows alongside an aging population and economic pressures. In this context, nonprofits have become increasingly essential in delivering services that meet evolving social needs. The COVID-19 pandemic highlighted the importance of the nonprofit sector in Europe, as nonprofits played a crucial role in healthcare, social services, and community support, filling gaps in public service capacity and providing critical aid to vulnerable populations. In Italy, for instance, volunteer organizations and social cooperatives stepped in to provide health services, food distribution, and psychological support during the pandemic, showcasing the adaptability and commitment of civil society in times of crisis.

This crisis-response role of nonprofits is integral to the European welfare model, where civil society and the public sector often collaborate to promote community welfare. Unlike in the U.S., where nonprofits are increasingly driven by business strategies, European nonprofits generally emphasize solidarity and public benefit, aligning more closely with traditional welfare-state values. However, this model faces challenges as funding constraints and increasing demands on social services push nonprofits toward more professionalized and efficient practices, which could risk shifting their focus away from core humanitarian missions.

The differing paths of the U.S. and European nonprofit sectors are shaped by historical and cultural factors that pose distinct challenges to the third sector's value system. In the U.S., the trend towards business-like operations reflects a market-driven approach, potentially distancing nonprofits from their roots in community service and collective benefit. In Europe, however, the third sector remains closely tied to welfare principles but must navigate the tension between meeting rising social demands and maintaining its foundational values of public service and community well-being. These diverging directions highlight the complex roles of nonprofits in addressing public needs and adapting to changing social landscapes while preserving their original missions.

By contrast, in European markets, the protagonism of civil society is increasingly evident (e.g. during COVID) since it and the public sector are oriented towards

achieving community and society welfare, not for economic reasons but to fulfil the new needs of modern society.

These circumstances, due to different historical and cultural paths, are genuine challenges to the value system of the third sector, which is forced in directions that could distance it from its historical roots.

Conclusions

The search for a balance between the public interest of civil society, the power of the State (representing collective interests), and profit (which pursues different objectives) is a common challenge for both the United States and Europe. However, the tripolar model of social order present in both economies leads to opposite solutions.

In American culture, the main threat for non-profit organizations stems from competition with for-profit enterprises and is economic in nature. In European countries, and particularly in Italy, the greatest challenge comes from the public sector, which necessitates the adoption of co-programming and co-planning policies. These policies require third-sector organizations to assume greater responsibility and adopt a new cultural approach to uphold the welfare state and confirm the roots of European solidarity.

To deepen understanding of these dynamics and support the non-profit sector in both contexts, future research could focus on developing specific metrics to measure the economic and social impact of non-profit organizations and social enterprises. In particular, identifying parameters that effectively evaluate economic sustainability, capacity for innovation, and contribution to collective well-being could offer valuable insights.

Some specific metrics to measure the impact may be referenced 1. Economic Sustainability (Operating Margin, Self-Financing Rate, Revenue Diversification y Cost-Benefit Ratio); 2. Capacity for Innovation (Investment in Social Research and Development, Adoption Rate of New Practices y Pilot Projects and Scalability); 3. Contribution to Collective Wellbeing and Social Impact (Social Return on Investment (SROI), Number of Direct and Indirect Beneficiaries, Beneficiary Satisfaction Rate y Community Integration Index); 4. Organizational Efficiency and Human Resource Management (Volunteer Engagement Rate, Staff Retention Rate y Management Costs to Impact Ratio). Additionally, further exploration of the role of social enterprises as a bridge between profit and non-profit, and their economic impact in both U.S. and European markets, could improve under standing of their potential to support welfare objectives and ensure a balance between public interest and private initiative. For a comprehensive analysis, an organization could develop a "dashboard" displaying its performance across each of these areas. This integrated approach provides an overall view and facilitates comparison between organizations, both

nationally and internationally, allowing for the identification of progress and areas for improvement over time.

Adapted to the specific activities and context of non-profit organizations and social enterprises, these metrics could significantly contribute to measuring and enhancing economic and social impact.

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