



Title	The Size and Structure of the Japanese Nonprofit Economy
Author(s)	Yamauchi, Naoto
Citation	国際公共政策研究. 1998, 3(1), p. 31-45
Version Type	VoR
URL	https://hdl.handle.net/11094/5356
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The Size and Structure of the Japanese Nonprofit Economy*

Naoto Yamauchi**

Abstract

In this article I will review the overall economic structure of the Japanese private nonprofit economy through macro based data, including the overall scale of activities, the structure of the industry and its funding sources. First I will provide an outline how the nonprofit sector is treated in the System of National Accounts, or SNA, which is a representative set of macro-level statistics. I will highlight the problems and inadequacies of SNA data that arise when attempting international comparison of the nonprofit sector, and introduce a format that attempts to create new international comparative statistics and overcome these problems.

Keywords : system of national accounts, nonprofit institutions, structural operational definition, ICNPO

JEL Classification Numbers: L31, L33

* The author would like to thank Leonie Boxtel for her excellent research assistance.

**Associate Professor, Osaka School of International Public Policy, Osaka University.

Statistical Background to the Nonprofit Sector

In this article I will review the overall economic structure and current state of the Japanese private nonprofit economy through macro based data, including the overall scale of activities, the structure of the industry and its funding sources. In addition I will also conduct an international comparison of the sector, which in fact is not an easy task. Reasons for this are firstly that it is difficult to determine the scope of the nonprofit sector univocally, and secondly the volume of reliable data is limited.

First I will provide an outline how the nonprofit sector is treated in the System of National Accounts, or SNA, which is a representative set of macro-level statistics. I will highlight the problems and inadequacies of SNA data that arise when attempting international comparison of the nonprofit sector, and introduce a format that attempts to create new international comparative statistics and overcome these problems.

1. Nonprofit Organizations through Macro-Level Statistics

How does SNA treat nonprofit activities?

One set of macro level data (or aggregated data) on the economic activities of nonprofits is the System of National Accounts, or SNA. Under the SNA nonprofit organizations are listed as Nonprofit Institutions (hereafter shown as NPI).

NPI are defined as organizations operating without a profit making motive, that provide a service or benefit and have two or more full-time staff members. In terms of funding, such organizations are unable to cover all costs through income from the provision of services, and as a result it is expected that they make up for the gap in income through membership fees, donations, grants and income from assets. Organizations controlled by government organizations, or that receive a substantial portion of their income in the form of government assistance are excluded from this definition (they are classified as general government organizations).

Many nonprofit organizations conduct for-profit activities to finance nonprofit activities. Religious organizations operating venues for weddings and private schools running accommodation facilities are some typical examples. In such instances the SNA regards NPI as organizations existing primarily as the producers of nonprofit based services, which at the same time conduct for-profit activities as a sideline at different premises. Under this official guideline the scope of activities conducted by NPIs extends far beyond the production of nonprofit-based services, and as a result the scale of activities conducted is significant. However the separation of main activities from side activities often creates great confusion, and as a result the present Japanese SNA assumes that NPIs do not have offices defined as for-profit enterprises as NPIs, so that the scope of activities of conducted by NPIs corresponds to that of nonprofit service producers. Thus whilst the guidelines separates these two aspects, the data treats them as one item.

As services provided by NPIs are directed to either households or to corporations, they are divided into two groups; nonprofit institutions serving households (hereafter shown as NPISH) and nonprofit institutions serving corporations. Organizations falling under the NPISH category include a part of private hospitals, private schools, labor unions, political parties, and religious organizations. Under the existing SNA, NPISH are treated as an independent category alongside households, non-financial incorporated enterprises, financial institutions and the general government. On the one hand, nonprofit institutions serving corporations include chambers of commerce, economic organizations, and industry based groups, however these groups are treated as non-financial corporations or as financial institutions.

The flow and stock of NPI

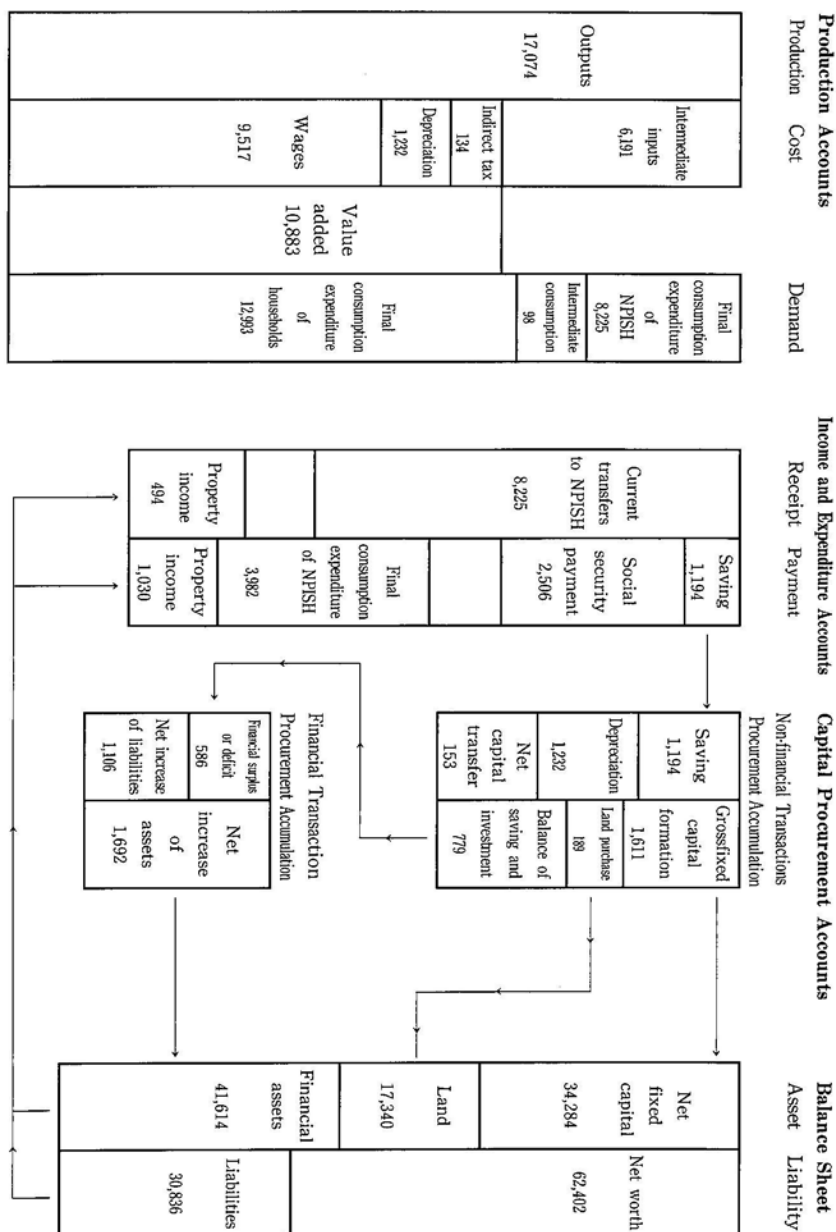
Figure 1 is a flow chart representing the activities of NPISH. The output of goods produced by for-profit companies can be measured by the prices of goods sold in the market. However the selling price of goods and services provided by NPISHs does not fully cover production costs, so that market prices are unhelpful as measures of NPISH outputs. As a result NPISH outputs are gleaned through production costs. Production costs consist of intermediate inputs as the costs of materials, and personnel costs or employee wages, fixed capital depreciation and

indirect taxes. Unlike for-profit enterprises it is assumed that profits will not be made. (thus they are basically treated in the same way as government activities).

The figure representing production costs less the interim investment costs is the gross added value produced through NPISH activity. Subtracting the fixed capital depreciation from this figure, we have the net added value.

Figure 1 Activities of Nonprofit Institutions Serving Households Based on SNA

(Billion Yen)



Source: Economic Planning Agency, *Annual on National Accounts*
 Figures for the balance sheet are those at the end of year 1995, others are those of the calendar year 1995.
 Size of each cell does not necessarily represent magnitude of economic value.

Products and services produced by NPISHs are of course sold to someone. For example, educational services provided by private schools receive remittance from households in the form of school fees. Such fees form part of total household consumption expenditure. When companies or governments dispatch staff on sponsored study leave, tuition fees paid by such organizations constitute intermediate consumption. As the total of these items is less than output, it is assumed that the NPISH consumes the difference in costs, hence these amounts represent the final consumption expenditure of NPISH.

In addition to relying on private donations and government grants as standard forms of revenue, NPISHs also generate receipts from assets through fund management. This income is used to cover expenditure on activities (grant making, provision of scholarship funds etc), and the remainder is accrued as savings (income and expenditure accounts). Savings can be used for investment in facilities or can be applied to land or financial assets (capital procurement accounts).

Economic activities of NPISHs over the space of a year, whilst being influenced by the assets and liabilities (i.e. portfolio composition) accumulated at the commencement of the financial year, also restrict portfolio composition at the close of the year. For example if financial assets increase capital income will also increase (the causal relationship from stock to flow) and as the percentage accumulated increases the expansion rate of net assets will also accelerate (the causal relationship from flow to stock). NPISH assets and liabilities are shown in the balance sheet.

Looking at the macro-level scale of activities for 1995 NPI output totaled 17.1 trillion yen, which represents 3.5% of GDP. Subtracting interim expenses from this figure produces a gross value added amount of 10.9 trillion yen, which represents 2.3% of GDP. The net assets of NPISHs at the end of the 1995 financial year were 62.4 trillion yen, which is 2.0% of national wealth (the entire nation's net assets). Looking at time series data on NPISH activities (figure 2 and table 1) we can see that both output and the gross value added worth as a percentage of GDP are slowly but steadily increasing.

Figure 2 Long-run Growth of NPISH in Japan

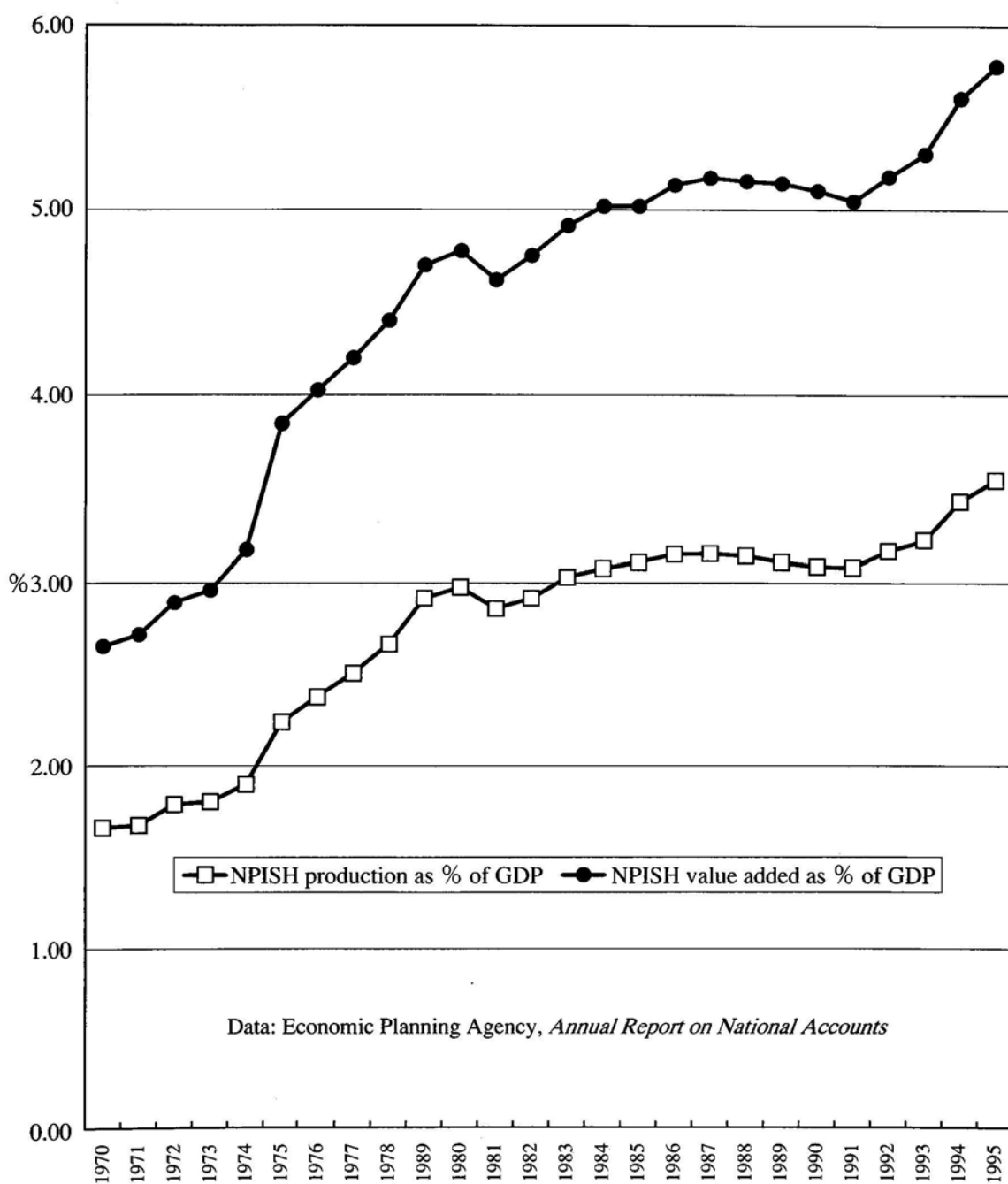


Table 1 Activities of Nonprofit Institutions Serving Households

Year	Production	Gross value added	NPISH production as % of GDP	NPISH value added as % of GDP	Net worth	Net worth /National wealth
	billion yen	billion yen	%	%	billion yen	%
1970	1,210	730	1.65	1.00	6,767	2.28
1971	1,348	846	1.67	1.05	7,462	2.11
1972	1,642	1,043	1.78	1.13	9,282	1.96
1973	2,017	1,313	1.79	1.17	11,995	1.92
1974	2,548	1,725	1.90	1.29	13,672	1.99
1975	3,318	2,363	2.24	1.59	14,772	2.00
1976	3,949	2,747	2.37	1.65	16,672	2.05
1977	4,621	3,141	2.49	1.69	18,463	2.09
1978	5,419	3,547	2.65	1.74	20,717	2.09
1979	6,440	3,947	2.91	1.78	24,379	2.09
1980	7,147	4,285	2.98	1.78	27,465	2.05
1981	7,373	4,556	2.86	1.77	29,716	2.01
1982	7,868	4,947	2.91	1.83	31,739	2.02
1983	8,521	5,342	3.02	1.90	33,371	2.04
1984	9,242	5,824	3.08	1.94	35,311	2.06
1985	9,814	6,218	3.06	1.94	37,422	2.04
1986	10,406	6,675	3.10	1.99	42,508	2.01
1987	10,985	6,970	3.14	1.99	49,351	1.92
1988	11,782	7,530	3.15	2.01	52,072	1.86
1989	12,511	8,023	3.13	2.01	57,277	1.80
1990	13,361	8,524	3.11	1.98	61,328	1.74
1991	14,083	9,017	3.07	1.97	60,937	1.79
1992	14,956	9,483	3.17	2.01	59,719	1.84
1993	15,345	9,833	3.23	2.07	60,361	1.87
1994	16,437	10,430	3.43	2.18	61,646	1.92
1995	17,074	10,883	3.54	2.25	62,402	1.96

Source : Economic Planning Agency, *Annual Report on National Accounts*

Against the backdrop of the extended recession and extremely low interest rates, NPISHs such as foundations that rely heavily on capital returns are recently finding conditions extremely tight. As a result, an increasing number of organizations have had no choice but to reduce the scale of their activities. According to SNA data, asset income receipts have dropped drastically, from a peak in 1991 of 1.5 trillion yen, to 0.5 trillion yen in 1995, figures which clearly demonstrate the rapid fall in asset derived income. In particular, since 1992 instances have arisen where asset income related expenditures have outstripped the income earned.

The limitations of SNAs

As we have seen above, SNA statistics provide a wealth of information on the nonprofit sector. In addition, as SNA are composed in accordance with UN estimation guidelines, we may easily believe that it will be simple to conduct an international comparison on the nonprofit sector by extracting data on NPIs in each country.

However, SNA statistics are not as universal as they appear. In fact, of the countries that produce SNA statistics, there are very few that estimate and distinguish the private nonprofit sector¹⁾. Japan is one of only three countries including France and Portugal that estimate and release data on all items requested by the UN. However even these data are limited, as it must be noted that the nonprofit sector has the poorest level of useable primary data, and is the area with the weakest levels of estimation amongst data collected through SNA. In addition, SNA tends to adhere to a very narrow definition of nonprofits, regarding them as exceptional organizations that are neither government nor for-profit corporations²⁾.

This format may have been feasible in the 1960s when SNA began to collate data on this area, but given the steady growth in the sector in recent times there is an increasingly high risk that figures on the economic strength of nonprofits is being underestimated³⁾.

1) Among OECD countries only Japan, Germany, Great Britain, Portugal, Sweden, Finland, and Austria estimate NPIs as an independent category. (see OECD, 1995 and Ohsumi, 1995)

2) See Anheier, Rodney and Salamon (1992) for details. For example there are problems such as, under SNA, NPOs that rely on governments for over half of their revenues are classified as the general government sector. France is an extreme example of this. France follows the United Nations manual very literally, making the interpretation of the nonprofit sector extremely narrow. As a result, the ratio of nonprofit organizations serving households to GDP is reported to be less than 0.3%, and the nonprofit sector is estimated to be extremely small.

3) In the new SNA estimate guidelines released in 1993, nonprofit institutions were divided into market NPI which sold services in the market, and non-market NPIs which did not. The former group were regarded as part of for-profit enterprises (from United Nations et. al., 1993).

2. The Definition and Scope of Nonprofits

Statistics for international comparison

As SNA has been deemed an unreliable source, we need to compile a new set of statistics with an international viewpoint to enable comparative research on the scope and structure of the private nonprofit sector. However, a number of problems arise at this point. We need to recognize that basic statistical data on the nonprofit sector in most countries is not well organized, and that the systems and customs under which the sector operates differ from country to country. Hence there is a need to firstly commence discussion on how we define NPOs or the nonprofit sector and how we should go about classifying them. Professor Lester Salamon at the Johns Hopkins University and a team of affiliates embarked on a project in 1990 aiming to overcome the difficult task of conducting international comparative research, after first establishing a uniform definition and methods of estimation. This research project, named the Johns Hopkins Comparative Non-profit Sector Project (JHCNP), selected teams of experts from twelve countries - 7 developed countries including Japan and 5 developing countries - who set about estimating the nonprofit sector in their respective nations.

Defining NPOs

In order to classify each individual economic entity, a working definition of NPOs was needed (also called the "structural operational" definition). The classification of organizations that were regarded as borderline governmental organizations or for-profit enterprises, and how to distinguish very small nonprofit households were some of the problems arising when defining the parameters of NPOs. Under the JHCNP NPOs were defined according to the following five features.⁴⁾

Firstly they must be non-profit distributing. The non profit-distributing feature is the most fundamental criteria of NPOs. This does not mean that organizations making profits are excluded. Rather, it simply means that to be classified as a nonprofit organization profits are not able to be distributed to parties with a

4) See Salamon and Anheier (1997) for the issues on defining the nonprofit sector.

vested interest in the organization (stakeholders). In the event that an operating surplus is generated, this should be reinvested in activities fulfilling the nonprofit objective of the organization.

Delineating NPOs from for profit organizations is in practice a difficult task. The theoretical and actual lines of classification drawn are not always identical. There are cases where an organization may be classified as a nonprofit, but for all other intents and purposes act in the same fashion as a for-profit enterprise, and vice-versa. It is also important to note that an organization does not have to provide public goods or quasi-public goods and services to be classified as a nonprofit organization. Generally speaking the category includes religious organizations, political organizations and groups that offer a service provided for a membership fee such as alumni and sports clubs.

The second feature is that organizations must be formal. This means that rather than requiring incorporated status, the format of the organizations must be institutionalised to some degree. This aspect is particularly important as a basis enabling NPOs to be distinguished from households. The SNA holds that organizations with more than two full time staff are regarded as NPIs, and those with less than two staff are regarded as households. This is likely to have come about because in the estimating process it is difficult to distinguish NPIs smaller than this from households. In reality however, there are large numbers of grass roots NPOs relying primarily on part-time volunteer workers, that have less than two full time staff. Grass roots organizations operate in a similar fashion to the management of self-employed private enterprises, in that they share the same family unit-based management system. However under the JHCNP definition, if they have an identifiable and formalized structure they are classified as NPOs.

Feature three requires NPOs to be private. NPOs must therefore not operate as part of a government structure, but this does not imply that NPOs are unable to receive grants and funding from the government. Nevertheless, here arises a great problem in the case of Japan, as so many of the public benefit corporations established as extra-governmental organizations operate as an extension of government offices and are heavily supervised and supported by government. Drawing a clear line between organizations deemed as government and those seen as NPOs is especially difficult in this case. Among such organizations many are not only supported

financially by government; the government has the right to supply staff and govern decision making processes within the organization. If this feature was strictly applied, the nonprofit sector in Japan would be fairly small as a result.

The fourth criteria is that the organizations must be self-governing. This means that the organization must not be controlled by another organization and must have the ability to manage its affairs. For example corporate foundations under one definition may be reliant on their parent company for funding, but in order to be regarded as an NPO there must be some level of decision making that is independent of parent company management.

The fifth criteria is that NPOs must be voluntary. By this the definition seeks to recognize the necessity for some level of voluntary labor and/or donations as inputs of the operation of the organization. Whilst co-operatives, credit unions and mutual insurance companies can be thought of as NPOs as they are non-profit-distributing, they are excluded from the non-profit sector in the JHCNP on this basis.

There is still a large variance in the level of reliance on donations and volunteer activities. For example in Japan private hospitals (medical corporations or *iryo hojin*) and private schools (private school corporations or *gakko hojin*) offer services at prices that seek to cover costs, making their reliance on volunteers and donations minimal in many cases. In contrast, many grant making foundations rely heavily on donations from the private sector, and a large number of smaller citizens' groups operate almost entirely through volunteer staff.

Treatment of religious and political organizations

In order to make the JHCNP operational as an international comparative project, religious and political organizations were excluded. It is important to make clear at this point that they were excluded not because they fall outside the non-profit definition, but rather in order to keep the international project to a feasible size. For example, in some countries the influence of churches, mosques and temples is significant; in some instances they are inseparable from political organizations. This makes it almost impossible to conduct a comprehensive statistical coverage of the sector without an enormous team of people and a great deal of time.

However, whilst activities directly relating to church such as worship are ex-

cluded, charitable activities and social programs emerging from religious activities are included. In the same way, political organizations or parties aiming to support a particular candidate are excluded, whilst advocacy activities aiming to support or promote a particular policy or stance are included as NPOs. In reality however there is likely to be a large number of ambiguous cases.

3. The International Diversity of the Nonprofit Sector

The first stage of the JHCNP has been completed and a report on the findings released. Whilst a total of 12 countries were included in the project, at present it is possible to conduct international comparisons using a variety of approaches on data from seven of these countries; the US, Japan Germany, France, Great Britain, Italy and Hungary (see table 2). I have provided a brief overview of these below⁵⁾.

All values are based as at or around 1990.

Table2 Comparing Nonprofit Sector Internationally (1990)

	Japan	USA	UK	Germany	France	Italy	Hungary	7countries
Employment (FTE) (1,000)	1,440	7,131	946	1,018	803	416	33	11,787(a)
as % of total employment	2.5	6.9	4.0	3.7	4.2	1.8	0.8	4.5(b)
Operating expenditure (billion US)	95.1	346.4	47.0	53.9	39.9	21.8	0.4	604.4(a)
as % of GDP	3.2	6.3	4.8	3.6	3.3	2.0	1.2	4.6(b)
Distribution by field in								
Culture & Recreation	1.2	3.1	20.5	7.3	17.8	8.5	56.2	16.4
Education & Research	39.5	22.7	42.4	11.9	24.8	21.7	4.0	23.9
Health	27.7	52.6	3.5	34.5	14.5	16.4	0.9	21.4
Social Services	13.8	9.9	11.5	23.1	28.9	24.9	24.9	19.5
Environment	0.2	0.7	2.2	0.7	0.7	0.2	1.5	0.8
Development & Housing	0.3	3.1	7.8	14.8	6.4	1.7	1.4	5.1
Civic & Advocacy	0.9	0.3	0.7	1.1	2.9	2.2	0.4	1.2
Philanthropy	0.1	0.4	0.7	0.2	0.0	1.0	0.7	0.4
International	0.5	1.2	3.7	1.5	1.1	1.3	0.1	1.3
Business, Professional	11.4	5.1	7.0	5.3	2.9	22.9	9.4	9.1
Other	4.5	0.9	0.0	0.0	0.0	0.0	0.50	0.8
Revenues by major source in %								
Public Sector	38.3	29.6	39.8	68.2	59.5	42.6	23.3	43.0
Private Giving	1.3	18.7	12.1	3.9	7.1	4.1	19.7	9.5
Private Fees	60.4	51.8	48.2	27.9	33.5	53.2	57.0	47.4

Note: (a) is total, (b) is weighted average. Other figures are simple average.

Date: Salamon and Anheier (1996)

5) See Salamon and Anheier (1994) for an overview of comparative studies. Country monographs, such as Kuti (1996) for Hungary, Kendall and Knapp (1996) for the United Kingdom, Archambault (1997) for France have been published. Japanese estimates are noted in Atoda, Yamauchi and others (1994).

The use of operating expenditures

There are the equivalent of 11.79 million full time equivalent (FTE) paid workers employed in the non-profit sectors of the 7 countries noted⁶⁾. This figure represents 4.5% of the total workforce and 11.8% of workers in the service industry.

In addition, there are the equivalent of some 4.7 million volunteers (calculated to full time worker equivalents) in Germany, France and Italy alone. Operating expenditure exceeds US\$ 600 billion for the seven countries, which equates to approximately 5% of GDP.

On an individual level, the US has by far the largest nonprofit sector in terms of both expenditure and levels of employment, followed by Japan. As a percentage of the entire economy America ranks first, whilst Great Britain, France and Germany all lie ahead of Japan. The framework used for the calculation of operating expenditure is relatively close to the framework used for output in SNA statistics. SNA and JHCNP results vary very little in the case of Japan, however SNA figures for France are considerably smaller than those calculated in the JHCNP.

Areas of nonprofit activity

In order to conduct international comparisons between the industry structures within the various nonprofit sectors, JHCNP devised a new system of classification called the International Classification of Nonprofit Organizations, or ICNPO. This consists of 12 categories, including culture & recreation, education & research, health, social services and so on. Table 2 indicates the structure of expenditures on 11 of these categories excluding religion.

Using averages from the seven countries we see that education and research occupies the top position in terms of expenditure, representing almost 1/4 of the total. This is followed by health, social services and culture & recreation. These four areas alone collectively represent eighty percent of all spending. There are large differences in areas of spending according to different countries; health and medicine represents a relatively large portion of spending in the US and Germany, whilst research and education figures heavily in Japan and Great Britain and so

6) The nonprofit sectors of the six developed nations absorb seven times the total number of workers employed by the largest profit making companies in each country, Hitachi, General Motors, Daimler-Benz, Fiat, Unilever, and Alcatel-Althom.

cial services in France and Italy.

Sources of income

In terms of sources of income, the report notes that most NPOs are financially dependent on fee based income, membership fees and government support. Taking the average of the seven countries we see that 47% of the total derived from membership and fee based income, whilst 43% was obtained through government support. Donations from the private sector was surprisingly small, representing less than 10% of the total. Donations are a feature unique to the nonprofit sector.

Given that there is a strong belief that the nonprofit sector is sustained by gifts from the private sector the results are rather surprising.

If we look at countries individually, Hungary and the US rely more heavily on private donations in relative terms (even so this amount is less than 20%). In contrast there is little reliance on private donations in Japan, Germany and Italy. Germany and France rely heavily on the government, whilst Japan relies primarily on membership fees and fee-based income.

The significance of an international comparison

A number of points have become apparent about nonprofit sectors in countries involved in the international comparative research project. Understanding the international diversity of the nonprofit sector is important not only for researchers but also for government policy makers. A knowledge of the differences and similarities of the nonprofit sectors in various countries in terms of history, systems, culture and stages of economic development is vital in order to understand the conditions necessary for the development of nonprofit organizations. In particular we can learn more about the competitive relationships between for-profit organizations and NPOs, and the alternative in government and NPO provision of services with a high level of public benefit. Examining the background to the international diversity of the nonprofit sector will not only enable a better understanding of the role of the nonprofit sector in market economies, but also provide invaluable information.

In December 1995 the first project team meeting of the JHCNP Phase II was held in Dublin, Ireland in order to revise and expand the project estimations. The

number of countries involved in the study doubled, and experts on NPOs and statistics (including myself) gathered from thirty different countries. At this meeting a discussion was held regarding the definition and classification of the nonprofit sector introduced earlier in this article. Of interest was the fact that the JHCNP project itself was regarded as typical of non-profit activities in many countries supported by philanthropy. I foresee that research projects such as this will not simply serve as basic research that enables clarification of the current state of the sector, but will also be an important means through which international exchange in the nonprofit sector is promoted.

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