

CHAPTER HIGHLIGHTS

THE STATE OF NONPROFIT AMERICA

LESTER M. SALAMON *editor*

Chapter 14 Highlights
**DEVOLUTION, MARKETIZATION,
AND THE CHANGING SHAPE OF
GOVERNMENT-NONPROFIT RELATIONS**

Kirsten A. Grønbjerg and Lester M. Salamon

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DEVOLUTION, MARKETIZATION, AND THE CHANGING SHAPE OF GOVERNMENT-NONPROFIT RELATIONS *

By Kirsten A. Grønbjerg and Lester M. Salamon

Few relationships have been more important to the development of the nonprofit sector in the United States than the sector's relationship with government. Though not widely recognized, government-nonprofit interactions in the United States rest on a long legacy of partnership. Through most of our history, government has provided much of the financial support that has allowed the sector to grow and prosper. During the past twenty years, however, government's relationship with the nonprofit sector has become increasingly less supportive, with consequences that could be serious for the sector's long-term health.

This is the conclusion of a new analysis of government-nonprofit relations recently completed by Kirsten A. Grønbjerg of Indiana University and Lester M. Salamon of The Johns Hopkins University. Their analysis is part of a broader assessment of *The State of Nonprofit America* coordinated by Dr. Salamon and published by the Brookings Institution Press in collaboration with the Aspen Institute.

Arenas of Government-Nonprofit Interaction. As Grønbjerg and Salamon note, government affects nonprofit operations in at least four different arenas: through its spending decisions, its tax policies, its regulations, and its broader policy posture. In most of these, the record of the past two decades generally reflects increasing hostility.

Government Funding. Thus, in the first place, funding for many of the government programs that directly fueled the growth of the nonprofit sector in the 1960s and 1970s declined in the early 1980s, at least outside the health arena, and did not resume its growth in real dollar terms until the early 1980s.

The Changing Form of Government Support. Second, while government spending and government support to nonprofit organizations has resumed its growth more recently, the form of this support has changed markedly. In particular, government support has shifted massively from producer-side subsidies provided directly to nonprofit service providers to consumer-side subsidies provided to the potential recipients of their services. This shift, which was already evident with the G.I. bill in the 1940s for education, and with Medicare and Medicaid in the 1960s for health, has now spread to the human service arena more broadly, making it necessary for nonprofits across a broad front to compete in the market not only for private fee income but for government-funded client subsidies as well. The result has been to intensify the "marketization" of nonprofit operations.

Loss of Preferred Provider Status. Third, this shift toward consumer subsidies has reinforced other government policies that have had the effect of increasing for-profit involvement in delivering pub-

licly-funded services. Characterized as “privatization,” these policies have put a premium on the values of cost and efficiency at which for-profits tend to excel, rather than the values of equity and effectiveness where nonprofits often have the edge. The overall result has been to reduce the preferred provider status of nonprofit organizations and to shift public resources not from government agencies to private ones but from *nonprofit* private ones to *for-profit* private ones. Coupled with more recent proposals to advantage faith-based organizations, the result has been to subject nonprofit service agencies to even more intensive competitive pressures.

Growing Regulatory Pressures. Fourth, nonprofits are facing growing regulatory pressures from government at all levels. Particularly noteworthy here have been recent legislative and administrative efforts to discourage advocacy by nonprofits, particularly advocacy by nonprofits receiving federal support. But other mission-critical nonprofit functions have also been put at risk, such as the commitment to serve those in greatest need, to promote teaching and research, and to value quality and community benefit over efficiency and responsiveness to market pressures.

Shifts in Tax Policy. Finally, changes in tax policy, whether intentionally or not, have reduced the financial incentives to give, both out of current income and at death. At the same time, continuing battles over nonprofit property tax exemptions have added further to nonprofit uncertainties in many locales.

To be sure, these shifts are far from universal. Nor do they exhaust the range of shifts in government involvement with the nonprofit sector over the past 20 years. Side-by-side with the generally negative developments noted above, for example, has been the praise lavished on the nonprofit sector by the Reagan and the two Bush administrations as well as the Clinton Administration’s national service initiative and the rhetoric of compassion and encouragement to faith-based organizations promoted by President George W. Bush. Nevertheless, the generally cooperative spirit that characterized government-nonprofit relationships in the 1960s and early 1980s has soured in the subsequent two decades.

Needed: A New Paradigm of Partnership. To put government-nonprofit relationships back on track, Grønbjerg and Salamon recommend a new paradigm of government-nonprofit interaction, one that treats the collaboration between government and the nonprofit sector not as a regrettable necessity but as a highly positive feature of a modern, pluralistic society that encourages active cooperation by all sectors in the resolution of societal problems. This will require that nonprofits acknowledge the legitimate performance requirements of government, but also that government acknowledges the advocacy responsibilities of nonprofits and its own obligation to provide greater stability in the public funding streams available to nonprofits.

* Adapted from “Devolution, Marketization, and the Changing Shape of Government-Nonprofit Relations” by Kirsten A. Grønbjerg and Lester M. Salamon in Lester M. Salamon, editor. *The State of Nonprofit America*. Washington: The Brookings Institutions Press, 2002. Published in cooperation with the Aspen Institute.

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“Tells a readable story of how a multitude of intertwined public and private trends – shifts in demography, public policy and attitudes, technology, the marketplace – have combined to shape today’s diverse nonprofit sector. Beyond reporting on how the sector has responded to past challenges, it provides provocative suggestions for changes necessary to promote nonprofits’ health over the long term. It is a welcome addition to the literature, and I commend this book to anyone interested in the special role nonprofits play in American life.”

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“Provides a revealing insight into the important role that nonprofit organizations have come to play in the effective operation of our publicly funded services. It makes clear why we must make this partnership work.”

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– Peter B. Goldberg, President and CEO, Alliance for Children and Families

Chapter highlights are from “Devolution, Marketization, and the Changing Shape of Government-Nonprofit Relations” by Kirsten A. Grønbjerg and Lester M. Salamon, a chapter in *The State of Nonprofit America*, edited by Lester M. Salamon and published by the Brookings Institution Press in collaboration with the Aspen Institute.

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