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What is This?

Lester M. Salamon

Despite the fact that government in the United States relies more heavily on nonprofit organizations than on its own instrumentalities to deliver government-funded human services, and that nonprofits receive more of their income from government than from any other single source, the phenomenon of government-nonprofit partnership has been largely overlooked both in analyses of the welfare state and in research on the voluntary sector. This article argues that this neglect of government-nonprofit ties is less the product of a lack of research than of important weaknesses in theory. Both the theory of the welfare state and the theory of the voluntary sector, moreover, are deficient. To overcome these weaknesses, the article advances an alternative theoretical formulation that replaces the prevailing conception of the welfare state with the concept of "third-party government," and replaces the current "market failure-government failure" theory of the voluntary sector with a theory built around the concept of "voluntary failure" instead. Viewed through these alternative conceptual lenses, the phenomenon of government-nonprofit partnership comes into far better view and becomes far more understandable. Against the backdrop of this alternative theory, the article then identifies a number of principles that should guide government-nonprofit relations in the years ahead.

Few facets of the American welfare state have been so thoroughly overlooked or so commonly misunderstood as the role of the nonprofit sector and the relationships between nonprofit organizations and government. Yet few facets also are as important.

According to widespread beliefs, the social welfare programs of the New Deal and Great Society effectively displaced voluntary agencies in the United States and led inevitably to their decline. In fact, however, the voluntary sector has retained a vital, indeed growing, role in the American welfare state. It has done so, moreover, not in spite of government but, to an important degree, because of it. This is so because government has turned extensively to private, nonprofit organizations to deliver publicly financed services. In some cases, government has even created new nonprofit organizations where none existed. In others, nonprofit organizations have benefitted from government payments to individuals for the purchase of services that nonprofits provide (e.g., higher education, hospital care).

Through these and other channels an elaborate network of partnership arrangements has come into existence linking government and the nonprofit sector. So extensive are these arrangements, in fact, that in a number of human service fields—

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such as health and social services—nonprofit organizations actually deliver a larger share of the services government finances than do government agencies themselves. (Salamon, 1987) (See Table 1 below).

Not only is the resulting partnership important for government, however. It is also important for the nonprofit sector. In fact, government has emerged as the single most important source of nonprofit sector income. This is apparent in Table 2, which draws on a survey of nonprofit, public-benefit service organizations—exclusive of hospitals and schools—across the country (Salamon, 1984). As this table shows, as of 1981 nonprofit organizations received 40 percent of their income from government. By contrast, they received only 20 percent of their income from all types of private giving—corporate, foundation, and individual. In short, cooperation between government and the voluntary sector has become the backbone of this country's human-service delivery system, and the central financial fact-of-life of the country's private nonprofit sector. 

Despite its scale and importance, however, this partnership between government and the voluntary sector has attracted surprisingly little attention. Even the basic scope of the partnership has been unknown until recently, while serious analyses of its strengths and weaknesses have been virtually nonexistent. Like the broader question of the scope and character of the voluntary sector, the phenomenon of government-nonprofit interaction has been largely ignored in both public debate and scholarly inquiry, as attention has focused instead on the evolution of government policy.

This neglect has continued in more recent years as well despite a revival of interest

**TABLE 1**

<table>
<thead>
<tr>
<th>Field</th>
<th>Proportion of Services Delivered by</th>
<th></th>
<th></th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Nonprofits</td>
<td>For Profits</td>
<td>Gov't.</td>
<td></td>
</tr>
<tr>
<td>Social services</td>
<td>56%</td>
<td>4</td>
<td>40</td>
<td>100%</td>
</tr>
<tr>
<td>Employment/training</td>
<td>48%</td>
<td>8</td>
<td>43</td>
<td>100%</td>
</tr>
<tr>
<td>Housing/comm. devel.</td>
<td>5%</td>
<td>7</td>
<td>88</td>
<td>100%</td>
</tr>
<tr>
<td>Health</td>
<td>44%</td>
<td>23</td>
<td>33</td>
<td>100%</td>
</tr>
<tr>
<td>Arts/culture</td>
<td>51%</td>
<td>*</td>
<td>49</td>
<td>100%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>42%</strong></td>
<td><strong>19%</strong></td>
<td><strong>39%</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

**SOURCE:** The Urban Institute Nonprofit Sector Project

*Less than 0.5 percent

*Figures are weighted by the scale of government spending in the sites. Percentages shown represent the share of all spending in all sites taken together that fall in the respective categories.
in the voluntary sector prompted by disenchantment with the costs and effectiveness of government. A major three-year study of “mediating structures” conducted by the American Enterprise Institute in the mid-1970s, for example, made the creation of a partnership between government and the nonprofit sector its major policy recommendation without ever acknowledging the extent to which existing government action already embodied this approach. (Berger and Neuhaus, 1977). What attention government-nonprofit cooperation has attracted, moreover, has tended to be critical, emphasizing the threat that governmental support poses to the nonprofit sector’s ideals of independence and voluntarism. What has so far been lacking, however, is a coherent analysis of the role this partnership has played or the reasons for its evolution.

How can we explain this paradox? Why has so important a feature of modern American social policy remained so obscure for so long? Why has so little attention been paid to this partnership arrangement between government and the nonprofit sector, despite the dominant role that this partnership plays in our system of human service delivery?

A Long-Standing Pattern

One possible explanation is that the phenomenon of widespread government-nonprofit cooperation is simply too new to have attracted much attention. In fact, however, this explanation is hard to support. To the contrary, extensive government-nonprofit cooperation has substantial roots deep in American history. Well before the American Revolution, for example, colonial governments had established a tradition of assistance to private educational institutions, and this tradition persisted into the nineteenth century. In colonial Massachusetts, for example, the Commonwealth government not only enacted a special tax for support of Harvard College, but also paid part of the salary of the President until 1781 and elected the College’s Board of Overseers until after the Civil War. The State of Connecticut had an equally intimate relationship with Yale, and the state’s Governor, Lieutenant Governor, and six state senators sat on the Yale Corporation from the founding of the school until the 1870s.
The prevailing sentiment was that education served a public purpose regardless of whether it was provided in publicly or privately run institutions and that it therefore deserved public support (see Whitehead, 1973, 3-16).

A similar pattern was also evident in the hospital field. A survey of seventeen major private hospitals in 1889, for example, revealed that 12-13 percent of their income came from government (Stevens 1982). So widespread was the appropriation of public funds for the support of private, voluntary hospitals, in fact, that an American Hospital Association report referred to it in 1909 as “the distinctively American practice” (Stevens 1982; Rosner 1980).

In the social welfare field, government support of nonprofit organizations has long been even more extensive. State and local governments turned extensively to private, voluntary organizations to help relieve the suffering occasioned by rapid urbanization and industrializations in the mid-nineteenth century. In New York City, for example, the amount the city paid to private benevolent institutions for the care of prisoners and paupers grew massively, from 2 percent of total city expenditures on the poor in 1850 to 57 percent in 1898. (Fetter 1901/2, p. 376). Indeed, reflecting this, a study of 200 private organizations for orphan children and the friendless in New York state in the late 1880s showed that twice as much of their support came from the taxpayers as from legacies, donations, and private contributions (Warner, 1894, p. 337). Similarly, in the District of Columbia, about half of the public funds allocated for aid to the poor went to private charities as of 1892. More generally, a 1901 survey of government subsidization of private charities found that: “Except possibly two territories and four western states, there is probably not a state in the union where some aid [to private charities] is not given either by the state or by counties and cities” (Fetter 1901, p. 360).

The Argument: The Need for Theory

If the widespread neglect of the partnership between government and the voluntary sector cannot be attributed to the newness of this partnership, to what can it be attributed? It is the argument here that the real answer to this question lies in the realm of theory: The partnership between government and the nonprofit sector has been overlooked, in my view, not because of its novelty or because of a lack of research but because of a weakness in theory. It is the role of theory, after all, to direct attention to the facts that are most relevant to a particular process. As Thomas Kuhn put it in his classic book, The Structure of Scientific Revolutions, “In the absence of a paradigm [or theory] . . . all of the facts that could possibly pertain to the development of a given science are likely to seem equally relevant” (Kuhn, 1962, p. 15). Lacking a valid theory, crucial facts can therefore be overlooked or misperceived. “Facts do not speak for themselves,” Stephen Jay Gould has observed, “they are read in the light of theory” (Gould, 1977). It is for this reason that Karl Deutsch has argued that “progress in the effectiveness of symbols and symbol systems [i.e. theory] is . . . basic progress in the technology of thinking and in the development of human powers of insight and action” (Deutsch, 1963 p. 10).

It is the argument here that such “basic progress in the technology of thinking” is very much needed in the analysis of the voluntary sector and its relationships with government. Our failure to perceive the reality of extensive government-nonprofit ties is, I believe, in substantial part a product of the limitations of the conceptual
lenses through which this reality is being perceived. Both the theory of the "welfare state" and the theory of the voluntary sector, moreover, have been at fault. Neither leaves much conceptual room for a flourishing government-nonprofit partnership. To the contrary, both suggest quite strongly that such cooperation could not, and should not, exist. Equipped with such theories, it is no wonder that observers have tended to overlook such cooperation or question it when it appears.

While this would be a problem under any circumstances, it has taken on special significance in recent years because of a series of public policy changes that were based on these erroneous theories. One of the central premises of the budget cuts sponsored by the Reagan administration in the early 1980s was that government and the nonprofit sector are in conflict and that the best way to assist the sector is to get government out of its way. What this approach overlooked was the extensive cooperation between government and the voluntary sector in a wide assortment of policy fields. (Salamon and Abramson, 1982). Clarifying our understanding of government-nonprofit relations is thus not simply an academic exercise; it is crucial to the ongoing policy debate.

Structure of Presentation

The purpose of this article is to help provide such clarification. To do so, the discussion here falls into three major parts. The first part, which follows, examines the existing concepts that dominate thinking both about the American welfare state and about the voluntary sector and shows how they divert our attention away from the reality of widespread government-nonprofit cooperation. The second part then introduces two new concepts—"third-party government" and "voluntary failure"—that I believe do a better job of coming to grips with the reality of government-nonprofit cooperation and therefore have a claim to greater "explanatory power." A final section then uses these new concepts to help guide our thinking about how such cooperation should evolve in the future.

THE PREVAILING THEORIES

Two sets of theories are largely responsible for the widespread neglect of the role of government-nonprofit partnerships in the American version of the modern welfare state. The first are the theories of the welfare state; the second are the theories of the voluntary sector.

The Theory of the Welfare State

At the core of the misperception of government's relationship with the nonprofit sector in the American context has been the prevailing conception of the welfare state. Focusing on the dramatic expansion of government social welfare expenditures that began in the Progressive Era, and accelerated during the New Deal and the Great Society, most observers have jumped easily to the natural conclusion that what has been underway in the United States has been a gigantic enlargement of the apparatus of government—particularly the national government—at the expense of other social institutions, among them private nonprofit groups. The central image
has been that of a large bureaucratic state, hierarchic in structure and monolithic in form, taking on social functions previously performed by other social institutions.

This image carries over into the American context a concept of the state that is essentially European in origin and that stresses the power of governmental institutions and their dominance over private, voluntary ones. Interestingly, moreover, both liberals and conservatives have had reason to embrace such an image. For liberals, faith in the capabilities of a professionalized public service and of an integrated state administrative apparatus has long been crucial in the battle to win political support for an expanded governmental role in social problem-solving. Not surprisingly, therefore, when the practice of governmental subsidization of private charitable institutions expanded in the late nineteenth century it was the progressives who voiced the most concern, fearing that this practice would interfere with the development of a far more desirable system of professional public care (Warner, 1894; Dripps, 1915; Fetter, 1901/2; Fleisher, 1914).

If liberals have thus had reason to exaggerate the capabilities of the state in order to buttress their case about the need for governmental involvement in public problem solving, conservatives have had an even stronger incentive to exaggerate the power of the modern welfare state in order to emphasize the threat that the state poses to individual liberty and other important social values. This tendency is clearly evident in the work of sociologist Robert Nisbet, whose Power and Community has become a centerpiece of conservative ideology. For Nisbet, an inherent conflict exists between government and various “mediating institutions” such as voluntary organizations—a conflict that government has been winning. The result, Nisbet believes, is a serious deterioration in the sense of community in the modern world and a troubling rise in anomie. As Nisbet puts it (1962; 68, 109):

The conflict between the central power of the political state and the whole set of functions and authorities contained in church, family, guild, and local community has been, I believe, the main source of those dislocations of social structure and uprootings of status which lie behind the problem of community in our age.

The real conflict in modern political history has not been, as is so often stated, between state and individual, but between state and social group.

“The logical conclusion of our present course,” two students of Nisbet thus conclude, “is that the state eventually becomes the sole provider of all social services” (Kerrine and Nehaus, 1979, 18).

This tendency to emphasize the monolithic character of the American welfare state and to deemphasize the continuing role of voluntary groups in public programs has also been encouraged by the focus of much of the national policy debate, and most academic policy analysis, on the formulation of policy, which has moved decisively into the governmental sphere, rather than on its implementation, which is where nonprofits have retained a substantial role (Hargrove, 1975). Taken together, the overall result has been to stress the expansion of the state, to convey an impression of governmental dominance of societal problem-solving and service-provision, and to leave little conceptual room for a vibrant nonprofit sector.

The Prevailing Theories of the Voluntary Sector: Market Failure, Government Failure, and Contract Failure

While the prevailing conception of the modern welfare state has left little room for a vibrant, private, nonprofit sector or for a blossoming government-nonprofit part-
nership, the existing theories of the voluntary sector likewise leave little room to expect effective cooperation between nonprofit organizations and the state. In fact, it was to get away from such blurring of the boundaries between the public and private sectors that the concept of the private nonprofit sector was invented in the latter nineteenth century. Prior to this time, charitable organizations were considered part of the public sector because they served public objectives. As business interests sought to free themselves from government involvement in economic affairs in the latter 1800s, however, it became important to draw a sharper distinction between public and private action, and the notion of a separate private, nonprofit sector took shape as one of the consequences (Hartz, 1948; Stevens, 1982).

If the concept of the nonprofit sector thus had its origins in a broader effort to distinguish the private sector from government, this division has since been further elaborated in the more formal economic theories of the voluntary sector that have surfaced in recent years. Broadly speaking, two such theories have been advanced to explain the existence of the voluntary sector, and neither provides much reason to expect extensive government-nonprofit cooperation.

The Market Failure/Government Failure Theory. The first of these theories views the existence of the voluntary sector as the combined product of what economists term "market failure" and "government failure"; i.e., of inherent limitations in both the private market and government as providers of "collective goods" (Weisbrod 1978). "Collective goods" are products or services like national defense or clean air that, once produced, are enjoyed by everyone whether or not they have paid for them. Providing such goods exclusively through the market will virtually ensure that they are in short supply since few consumers will volunteer to pay for products they could enjoy without having to pay. With market demand low, producers will produce less of these goods or services than the public really needs and wants. This phenomenon is commonly referred to as the "free rider" problem, and it serves in traditional economic theory as the major rationale for government. Since government can tax people to produce "collective goods" it can overcome this "market failure."

But government too has certain inherent limitations as a producer of collective goods. Most importantly, in a democratic society it will produce only that range and quantity of collective goods that can command majority support. Inevitably, this will leave some unsatisfied demand on the part of segments of the political community that feel a need for a range of collective goods but cannot convince a majority of the community to go along.

It is to meet such "unsatisfied demand" for collective goods, the argument goes, that a private, voluntary sector is needed. Private, nonprofit organizations thus exist, according to the market failure/government failure theory, to supply a range of "collective goods" desired by one segment of a community but not by a majority. From this it follows that the more diverse the community, the more extensive the nonprofit sector it is likely to have. Because the nonprofit sector is viewed as a substitute for government, providing goods and services that the full political community has not endorsed, however, government support to nonprofit organizations has little theoretical rationale. To the contrary, under this theory, to the extent that nonprofits deliver services that government underwrites, they violate their theoretical raison d'être, which is to supply the goods government is not providing. The market failure/government failure theory would thus predict that little government-
nonprofit cooperation would occur, and that what little of it exists cannot be easily justified.³

The "Contract Failure" Theory. The second broad theory of the voluntary sector attributes the existence of voluntary organizations to a different kind of market failure, what one theorist terms "contract failure" (Hansmann 1981). The central notion here is that for some goods and services, such as care for the aged, the purchaser is not the same as the consumer. In these circumstances, the normal mechanisms of the market, which involve consumer choice on the basis of adequate information, do not obtain. Consequently, some proxy has to be created to offer the purchaser a degree of assurance that the goods or services being purchased meet adequate standards of quality and quantity. The nonprofit form, in this theory, provides that proxy. Unlike for-profit businesses, which are motivated by profit and therefore might be tempted to betray the trust of a purchaser who is not the recipient of what he buys, nonprofit firms are in business for more charitable purposes and may therefore be more worthy of trust.

Since most government programs involve a substantial amount of regulation, however, this theory provides little rationale for government reliance on nonprofits, or for government regulation of nonprofits (Rose-Ackerman 1985). In fact, since government agencies might be expected to have even less reason to betray trust than nonprofit ones, this theory might lead one to expect more reliance on government agencies than nonprofit ones.

THIRD-PARTY GOVERNMENT AND VOLUNTARY FAILURE: TOWARD A NEW THEORY OF GOVERNMENT-NONPROFIT RELATIONS

Given the prevailing perceptions of the American welfare state and the prevailing theories of the voluntary sector, it should thus come as no surprise to find little awareness of the continued vitality of the nonprofit sector or of the immense importance of government-nonprofit cooperation. In neither set of theories is there much hint that the nonprofit sector should play as substantial a role as it does in the provision of government-financed services. How, then, are we to account for this phenomenon? Are the continued vigor of the nonprofit sector and the extensive pattern of government-nonprofit cooperation accidents, or is there some theoretical rationale that can better help us come to terms with these phenomena?

It is the argument here that the answer to these questions lies in certain shortcomings in the prevailing theories. Both the theory of the welfare state and the theory of the voluntary sector, moreover, are deficient, though for different reasons. To bring the prevailing reality into better focus, therefore, both sets of theories need to be reworked.


The central problem with the theory of the welfare state as it has applied to the American context is its failure to differentiate between government's role as a provider of funds and direction, and government's role as a deliverer of services. In point of fact, it is largely in the former capacity that government—certainly the national government—has grown in the United States. When it comes to the actual delivery of services, by contrast, the national government has turned extensively to
other institutions—states, cities, counties, universities, hospitals, banks, industrial corporations, and others. Far from the bureaucratic monolith pictured in conventional theories, the welfare state in the American context makes use of a wide variety of third parties to carry out governmental functions. The result is an elaborate system of "third-party government" (Salamon 1981), in which government shares a substantial degree of its discretion over the spending of public funds and the exercise of public authority with third-party implementers.

This pattern of government action is evident in a wide assortment of domestic program areas and involves a diverse array of actors. Under the more than 900 grant-in-aid programs, for example, the federal government makes financial assistance available to states and local governments for purposes ranging from aid to families with dependent children to the construction of interstate highways. Under the federal government's "loan guarantee" programs, close to $150 billion in loan money is lent by private banks to individuals and corporations, with federal backing, for everything from home mortgages to college education.

In each of these programs the federal government performs a managerial function but leaves a substantial degree of discretion to its nongovernmental, or nonfederal, partner. In the Aid to Families with Dependent Children program, for example, the federal government reimburses states for a portion of their payments to mothers with dependent children, but leaves to the states the decision about whether to have such a program, what the income eligibility cut-offs will be, and even what the benefits will be.

This form of government action reflects America's federal constitutional structure, with its sharing of governmental functions between federal and state governments (Grodzins 1966; Elazar 1972). But "third-party government" extends well beyond the domain of relations among the different levels of government. It also applies to relationships between government and a host of private institutions. As such, it reflects as well the conflict that has long existed in American political thinking between a desire for public services and hostility to the governmental apparatus that provides them. Third-party government has emerged as a way to reconcile these competing perspectives, to increase the role of government in promoting the general welfare without unduly enlarging the state's administrative apparatus. Where existing institutions are available to carry out a function—whether it be extending loans, providing health care, or delivering social services—they therefore have a presumptive claim on a meaningful role in whatever public program might be established.

This pattern of government action is also encouraged by the country's pluralistic political structure. To secure needed support for a program of government action, it is frequently necessary to ensure at least the acquiescence, if not the whole-hearted support, of key interests with a stake in the area. One way to do this is to give them a "piece of the action" by building them into the operation of the government program. Thus, private banks are involved in running the government's mortgage guarantee programs, private health insurers and hospitals in the operation of the Medicare and Medicaid programs, states and private social service agencies in the provision of federally funded social services.

Finally, this pattern of government action is motivated in part by concerns about flexibility and economy. Where existing institutions are already performing a function, government can frequently carry out its purposes more simply and with less
cost by enlisting these other institutions in the government program, thereby avoiding the need to create wholly new organizational structures or specialized staffs. This is particularly true where programs are experimental. This way of organizing government services also makes it easier to adapt program operations to local circumstances or individual needs and thus to avoid some of the drawbacks of large-scale governmental bureaucracy and some of the limitations of the civil service. Finally, some argue that the use of outside contractors lowers costs by stimulating competition and promoting economies of scale, though the evidence here is far from conclusive (Fitch 1974; Savas 1984).

Private, nonprofit organizations are among the most natural candidates to take part in this system of third-party government. Far more than private businesses, these organizations have objectives that are akin to those of government. Indeed, as noted earlier, they were regularly considered part of the “public sector” until the late nineteenth century because they served essentially “public” purposes. In addition, in a wide range of fields, nonprofit organizations were on the scene before government arrived. It was therefore frequently less costly in the short run to subsidize and upgrade the existing private agencies than to create wholly new governmental ones.

In short, the extensive pattern of government support of nonprofit institutions can be viewed as just one manifestation of a much broader pattern of third-party government that reflects deep-seated American traditions of governance as well as more recent concerns about service costs and quality. Instead of the hierarchic, bureaucratic apparatus pictured in conventional images, the concept of third-party government emphasizes the extensive sharing of responsibilities among public and private institutions and the pervasive blending of public and private roles that is characteristic of the American welfare state. Because a number of different institutions must act together to achieve a given program goal, this pattern of government action seriously complicates the task of public management and involves real problems of accountability and control (Salamon 1981; Smith 1975; Staats 1975). But it also has much to recommend it. It makes it possible to set priorities for the expenditure of societal resources through a democratic political process while leaving the actual operation of the resulting public programs to smaller-scale organizations closer to the problems being addressed. It thus creates a public presence without creating a monstrous public bureaucracy. And it permits a degree of diversity and competition in the provision of publicly funded services that can improve efficiency and reduce costs.

So long as the image of the welfare state in America remains tied to its conventional European model, the phenomenon of extensive government support to voluntary organizations has no apparent place and therefore tends to be overlooked. But once we adjust our conceptual lenses to take account of the reality of third-party government, it becomes clear why nonprofits play so important a role. These organizations predated government in many fields and operate in ways that are congenial to public objectives. Given a welfare state that is characterized by an extensive pattern of third-party government, the persistence of a voluntary sector and widespread government-nonprofit cooperation are not a mystery at all: they are perfectly understandable phenomena that are fully consistent with theoretical expectations.

Voluntary Failure: A New Theory of the Voluntary Sector

If the failure to acknowledge the reality of third-party government in the conventional image of the American welfare state explains part of the neglect of
government-nonprofit relationships in recent decades, shortcomings in the existing theories of the voluntary sector explain the rest. Essentially, as we have seen, those theories explain the existence of the voluntary sector in terms of failures of the market system and of government. The voluntary sector is thus seen as derivative and secondary, filling in where those other systems fall short.

It may be more meaningful, however, to turn this theory on its head, to reject the view that government is the typical response to market failure and to see voluntary organizations as the primary response mechanism instead. Rather than treating voluntary organizations as derivative institutions filling in for "government failure," for inherent limitations of government as a mechanism for providing collective goods, such a theory would turn the argument around and view government as the derivative institution responding to "voluntary failure," to inherent limitations of the voluntary or nonprofit sector.

The central argument for this reformulation is that the "transaction costs" involved in mobilizing governmental responses to shortages of collective goods tend to be much higher than the costs of mobilizing voluntary action. For government to act, substantial segments of the public must be aroused, public officials must be informed, laws must be written, majorities must be assembled, and programs must be put into operation. By contrast, to generate a voluntary-sector response, a handful of individuals acting on their own or with outside contributed support can suffice. It is reasonable to expect, therefore, that the private, nonprofit sector will typically provide the first line of response to perceived "market failures," and that government will be called on only as the voluntary response proves insufficient. So conceived, it becomes clear that government involvement is less a substitute for, than a supplement to, private nonprofit action. What is more, this reformulation of the market failure theory does a far better job of making sense of the fundamental reality of extensive government-nonprofit ties. And it suggests a theoretical rationale for these ties that fits into a broader, and more positive, conception of the voluntary sector, thus rescuing this fundamental fact of voluntary-sector life from the limbo to which it has been consigned by existing theories.

But what are the "voluntary failures" that have necessitated government action and that justify government support to the voluntary sector. Broadly speaking, there are four: first, philanthropic insufficiency; second, philanthropic particularism; third, philanthropic paternalism; and fourth, philanthropic amateurism.

**Philanthropic Insufficiency.** The central failing of the voluntary system as a provider of collective goods has been its inability to generate resources on a scale that is both adequate enough and reliable enough to cope with the human-service problems of an advanced industrial society. In part, this is a reflection of the "free rider" problem inherent in the production of collective goods. Since everybody benefits from a society in which those in need are cared for whether or not they have contributed to the cost of the care, there is an incentive for each person to let his neighbor bear most of the cost. So long as sole reliance is placed on a system of voluntary contributions, therefore, it is likely that the resources made available will be less than those society considers optimal. Only when contributions are made involuntary, as they are through taxation, are they therefore likely to be sufficient and consistent. As one early student of American charity put it:

The law is primarily an agency for bringing up the laggards in the march of progress, and
when the community on the average wants benevolent work done, this is the method of pushing forward those who hang back. . . . The stingy man is not allowed to thrive at the expense of his benevolent neighbor (Warner 1894, p. 306).

Since the range of "benevolent work" that is thought necessary has expanded considerably over the years, moreover, this problem has grown increasingly important over time.

Beyond this "free rider" problem, however, philanthropic insufficiency also results from the twists and turns of economic fortune. The economic fluctuations that have accompanied the growing complexity of economic life mean that benevolent individuals may find themselves least able to help others when those others are most in need of help, as happened with disastrous results during the Great Depression. Similarly, the voluntary system often leaves serious gaps in geographic coverage, since the resources are frequently not available where the problems are most severe. In short, the voluntary system, despite its advantages in terms of reducing transaction costs and creating a meaningful sense of social obligation and legitimacy, nevertheless has serious drawbacks as a generator of a reliable stream of resources to respond adequately to community needs.

Philanthropic Particularism. If resource inadequacy is one source of voluntary-sector weakness, the "particularism" of the voluntary sector constitutes another. Particularism, the tendency of voluntary organizations and their benefactors to focus on particular subgroups of the population, is, of course, one of the purported strengths of the voluntary sector. Voluntary organizations provide the vehicle through which such subgroups—ethic, religious, neighborhood, interest, or other—can join together for common purposes. Indeed, in some theories, as we have seen, it is precisely this particularism that provides the theoretical rationale for the existence of the nonprofit sector.

But particularism also has its drawbacks as the basis for organizing a community's response to human needs. For one thing, there is the possibility that some subgroups of the community may not be adequately represented in the structure of voluntary organizations. Even voluntary organizations require resources, after all, and it is quite possible that those in command of the needed resources—financial as well as organizational—may not favor all segments of the community equally. As a result, serious gaps can occur in the coverage of subgroups by the existing voluntary organizations. Close observers of the nonprofit scene in New York City, for example, have observed that up through the early 1960s, the lion's share of the child-welfare services were provided through essentially Catholic and Jewish agencies. Since most of the poor blacks who migrated to the city in the post-World War II era were Protestants, they did not immediately find a "home" in the established agency structure (Beck 1971, p. 271). Other groups—gays, the disabled, Hispanics, women—have found similar difficulties establishing a niche in the voluntary system and locating a source of support for their activities. More generally, the private nonprofit sector has long had a tendency to treat the more "deserving" of the poor, leaving the most difficult cases to public institutions. Indeed, the survey we conducted of 3,400 human service organizations revealed that the poor comprised the majority of the clients of only about 30 percent of the agencies, and that for half of the agencies, the poor constituted less than 10 percent of the clientele (Salamon, 1984b).

Not only can particularism, and the favoritism that inevitably accompanies it,
leave serious gaps in coverage, but also it can contribute to wasteful duplication of services. Voluntary organizations and charitable activity are motivated not alone by considerations of social need, but also by considerations of communal or individual pride. Each group wants its own agencies, and appeals to donors are frequently made along religious, ethnic, or sectarian lines. The upshot is that the number of agencies can increase well beyond what economies of scale might suggest, reducing the overall efficiency of the system and increasing its costs. This was a great concern of early students of American social welfare policy, who viewed the duplication of facilities and the resulting waste of resources as one of the great drawbacks of the private, voluntary system (Fetter 1901/02, p. 380; Fleisher 1914, p. 111). As Amos Warner (1894, p. 359) put it in his classic treatise on American charity in the 1890s:

The charities of a given locality, which should for useful result be systematically directed to the accomplishment of their common purposes, are usually a chaos, a patchwork of survivals, or products of contending political, religious, and medical factions, a curious compound, in which a strong ingredient is ignorance perpetuated by heedlessness.

Left to their own devices, therefore, voluntary organizations may leave significant elements of the community without care and make wasteful use of what resources are available.

*Philanthropic Paternalism.* A third class of problems with the voluntary system of responding to community problems results from the fact that this approach inevitably vests most of the influence over the definition of community needs in the hands of those in command of the greatest resources. This is so despite the importance of volunteer effort in this sector. For one thing, voluntarism itself requires resources of time and knowledge. But in addition, the growing need for professional approaches to social problems has made it necessary to go beyond voluntary effort. So long as private charity is the only support for the voluntary sector, those in control of the charitable resources can determine what the sector does and whom it serves. The nature of the sector thus comes to be shaped by the preferences not of the community as a whole, but of its wealthy members. As a consequence, some services favored by the wealthy, such as the arts, may be promoted, while others desired by the poor are held back. Since these private contributions are tax-deductible, moreover, they have the effect not only of allocating private expenditures, but also of allocating foregone public revenues as well, though without the benefit of any public decision process.

Not only is this situation undemocratic, but also it can create a self-defeating sense of dependency on the part of the poor since it gives them no say over the resources that are spent on their behalf. Aid is provided as a matter of charity, not of right. And in the past it was often accompanied by various moral preachments of the sort that George Bernard Shaw immortalized in his play *Major Barbara.* A central premise of much early philanthropic activity, in fact, was that the poor were responsible for their own destitution and needed to be uplifted religiously and morally through the work of sectarian agencies. Even in more recent times, close students of social policy have criticized the funnelling of funds "into the hands of upper-class and middle-class people to spend on behalf of the less privileged people" as "the most pernicious effect" of the private, charitable system because of the dependency relationship it creates (Beck, 1971 p. 218). In short, for all its strengths and value, private, charitable
support cannot easily escape its "Lady Bountiful" heritage and establish a claim to assistance as a right.

Philanthropic Amateurism. One final problem with the voluntary system has been its association with amateur approaches to coping with human problems. In part, this has been a reflection of the paternalism of the sector noted above: for a considerable period of time, the problems of poverty and want were attributed to the moral turpitude of the poor. Care of the poor, the insane, the unwed mother was therefore appropriately entrusted to well-meaning amateurs and those whose principal calling was moral suasion and religious instruction, not medical aid or job training.

As sociological and psychological theory advanced, however, these approaches lost favor and emphasis turned to more professional treatment modes involving trained social workers and counsellors. Agencies stressing volunteer effort and limited by dependence on contributions from providing adequate wages were in a poor position to attract such professional personnel. It was partly for this reason that social-welfare advocates of the late-nineteenth and early-twentieth centuries opposed public support for private charitable institutions, fearing this would siphon off resources needed to build an adequate system of professional, public care. As one of these advocates put it in 1914: "No appropriations should be made to charities under private management until the reasonable needs of the charities managed and supported by the state have been fully met and an adequate system of state institutions developed" (Fleisher 1914, p. 112).

Summary: A Theory of Government-Nonprofit Partnership

In short, for all its strengths, the voluntary sector has a number of inherent weaknesses as a mechanism for responding to the human-service needs of an advanced industrial society. It is limited in its ability to generate an adequate level of resources, is vulnerable to particularism and the favoritism of the wealthy, is prone to self-defeating paternalism, and has at times been associated with amateur, as opposed to professional, forms of care.

Significantly, however, the voluntary sector's weaknesses correspond well with government's strengths, and vice versa. Potentially, at least, government is in a position to generate a more reliable stream of resources, to set priorities on the basis of a democratic political process instead of the wishes of the wealthy, to offset part of the paternalism of the charitable system by making access to care a right instead of a privilege, and to improve the quality of care by instituting quality-control standards. By the same token, however, voluntary organizations are in a better position than government to personalize the provision of services, to operate on a smaller scale, to adjust care to the needs of clients rather than to the structure of government agencies, and to permit a degree of competition among service providers. Under these circumstances, neither the replacement of the voluntary sector by government, nor the replacement of government by the voluntary sector, makes as much sense as collaboration between the two. In short, viewed from a theoretical perspective that acknowledges the widespread pattern of third-party government in the American version of the modern welfare state, and that posits the voluntary sector as the principal mechanism for providing collective goods, but one that has certain inherent limitations or "failures," extensive collaboration between government and the nonprofit sector emerges not as an unwarranted aberration, but as a logical and the-
oretically sensible compromise. The "voluntary failure" theory of the voluntary sector and the "third-party government" theory of the American welfare state outlined here thus allow us to come to terms with the reality of government-nonprofit relationships far more effectively than the alternative concepts now in use. Given the fundamental importance of these relationships, this is reason enough to lend these theories some credence.

IMPLICATIONS

To say that a strong theoretical rationale exists for government-nonprofit cooperation is not, of course, to say that this cooperation has worked out in practice the way the theory would suggest. To the contrary, any relationship as complex as this one is likely to encounter immense strains and difficulties, especially given the somewhat different perspectives of the two sides. Government officials, for example, worry about the problems of exercising management supervision, ensuring a degree of accountability, and encouraging coordination when decision-making authority is widely dispersed and vested in institutions with their own independent sources of authority and support. Within the philanthropic community, the issues raised by the prevailing pattern of government support of nonprofit organizations are of a far different sort. Of central concern here are three other potential dangers: first, the potential loss of autonomy or independence that some fear can result from heavy reliance on government support; second, "vendorism," or the distortion of agency missions in pursuit of available government funding; and third, the danger of bureaucratization or over-professionalization resulting from government program and accounting requirements.

In the absence of a firm theoretical basis for government-nonprofit relations, it has been difficult to sort through these issues effectively. Indeed, the existence of strains has been taken in some quarters as evidence that the partnership between government and the nonprofit sector cannot work and should be dismantled. Against the backdrop of the theoretical notions developed above, therefore, it may be useful to revisit these issues and explore the implications that flow for the future of government-nonprofit relations and for the roles and responsibilities of the respective partners. Four such implications in particular seem most important.

Retention and Strengthening of "Nonprofit Federalism"

Perhaps the central conclusion that emerges from the preceding discussion is that the partnership that has been forged in this country between government and the nonprofit sector is worth preserving and strengthening. In all likelihood, had we not invented this mechanism for delivering needed services already, we would be thinking about inventing it now, rather than subjecting it to serious strain.

What "nonprofit federalism" offers is the opportunity to combine the service-delivery advantages of voluntary organizations with the revenue-generating and democratic priority-setting advantages of government. In many cases, moreover, this mechanism makes it possible to match publicly generated funds with privately generated ones to provide a better service than either could provide on its own. This is not to say that all services should be distributed through this mechanism since
there are disadvantages as well. But a strong case can be made for promoting this approach as one important element of the nation's service delivery system.

Accommodation by Government of the Organizational Needs of Nonprofit Organizations

“Nonprofit federalism” has advantages as a form of service delivery in large part because of certain distinctive characteristics of nonprofit agencies. These characteristics reflect the role that private, nonprofit organizations have traditionally played not so much as contributors to efficiency as mechanisms for promoting other important social values, such as group and individual freedom, diversity, a sense of community, civic activism and charity. These features have long made it in the national interest to protect and nurture the voluntary sector even if there were costs involved.

The nonprofit sector also offers a number of more practical advantages as well in the delivery of human services, however. Among these advantages are the following:

- A significant degree of flexibility resulting from the relative ease with which agencies can form and disband and the closeness of governing boards to the field of action.
- Existing institutional structures in a number of program areas resulting from the fact that voluntary agencies frequently begin work in particular areas prior to the development of government programs in these areas.
- A generally smaller scale of operation, providing greater opportunity for tailoring services to client needs.
- A degree of diversity both in the content of services and in the institutional framework within which they are provided.
- A greater capacity to avoid fragmented approaches and to concentrate on the full range of needs that families or individuals face, to treat the person or the family instead of the isolated problem.
- Greater access to private charitable resources and volunteer labor, which can enhance the quality of service provided and "leverage" public dollars.

Whether intentionally or not, involvement in government programs can threaten some of these inherent advantages of nonprofit agencies. For example, such involvement often creates a tension for nonprofit agencies between their service role and their advocacy role, between their role as deliverers of government-funded services and their role as critics of government and private policies. Such involvement can also put a strain on other importance features of the organizations, such as their reliance on volunteers, their sense of independence, their frequently informal and nonbureaucratic character, and their direction by private citizens along lines that these citizens think appropriate. Since many of these features are the ones that recommend nonprofit organizations as service providers in the first place, it would be ironic if government programs seriously compromised these features. What this suggests is the need for some forbearance on the part of government with respect to some aspects of the relationship between the two sectors, and for structural features that help to strengthen rather than weaken the distinctive elements of the nonprofit sector. Among other things this might include:

- Payment schedules on grants and contracts that avoid costly cash-flow problems for nonprofit organizations.
- Avoidance of undue interference with the nonservice functions of the organizations.
- The use of challenge grants or other funding devices that reward agencies for the use of volunteers or the generation of private-sector funds to supplement public resources.
• Continued encouragement of private giving, which is crucial for the preservation of an element of independence and flexibility for nonprofit agencies.

Recognition of the Need for Government Involvement and of the Legitimate Accountability Requirements of Government

If the partnership between government and the nonprofit sector gains strength from the involvement of the nonprofit partner, it also gains strength from the involvement of the governmental partner. Indeed, the whole thrust of the “voluntary failure” theory outlined above is that the voluntary sector, for all its advantages, has certain limitations that make sole reliance on it unwise. In particular, four major considerations make government involvement desirable even when voluntary associations are involved.

Financial: While private giving and voluntary activity remain vitally important, it seems unreasonable to expect that these sources can be counted on to generate the levels of support needed to sustain the kinds of services, including human services, that our advanced industrial society has come to require in order to make the most effective use of human resources. This was a lesson taught at considerable cost through the late nineteenth and early twentieth centuries in most of the advanced industrial societies of the world, including our own, and that remains relevant today.

Equity: Not only is government in a better position to finance needed services, it is also in a better position to ensure the equitable distribution of those resources among parts of the country and segments of the population. Private charitable resources may or may not be available where the need for them is greatest. In the absence of some mechanism like government, it is extremely difficult to channel the available resources reliably to the areas and populations that need them the most. In addition, sufficient nonprofit agencies with the experience and capability to provide certain services may not be available in particular locales, making it necessary to rely on direct public provision instead.

Diversity: While the nonprofit sector has a number of advantages as a service provider, it also has a number of disadvantages. For example, private voluntary agencies have been known to intrude more than some people might like into personal religious or moral preferences. Similarly, established agencies can sometimes monopolize the flow of private philanthropic dollars, limiting the resources available to newer or smaller groups. Finally, there are purposes for which existing institutions are considered inappropriate or are unreliable, and for which public stimulation of the creation of new institutions is in the public interest. For all of these reasons, there is an argument for a government role to ensure a sufficient degree of diversity in the service delivery system, including the funding of for-profit providers.

Public Priority-Setting: A central tenet of a democratic society is that the public should be able to set priorities through a democratic political process and then muster the resources to make sure those priorities are addressed. Complete reliance on private sector initiative and action robs the public of that opportunity and leaves the setting of priorities in the hands of those with the most control over private resources.

The fact that government has a crucial role to play in the government-nonprofit partnership means, of course, that government has certain legitimate expectations to place on nonprofit organizations. At a minimum, these include requirements for
basic financial accountability in the expenditure of public funds and adherence to
the purposes for which the funds are authorized. Beyond this, involvement in gov-
ernment programs also appropriately carries with it an obligation to be non-
discriminatory. The key, however, is to find a balance that protects the legitimate
public interest in accountability without undermining the characteristics that make
nonprofits effective partners of government.

The Need for Improvement in the Management of the Partnership

Although a substantial financial “partnership” has emerged in the human services
area between government and philanthropic institutions, this partnership remains,
in many senses, one in name only. For the most part, the resource allocation proc-
esthes in these two sectors proceed independently, and often in ignorance, of each
other. Public sector organizations have little clear idea of the uses to which private
philanthropic dollars are being put, and the charitable sector frequently has only
imperfect knowledge of, and limited influence over, the allocation of public funds.
Even basic information about the scope and structure of the private, nonprofit
delivery system is unavailable in most locales, making coherent policymaking diffi-
cult.

While this diversity and lack of coherence is one of the strengths of the current
pluralistic delivery system, it also has significant costs in terms of the effective use of
limited resources. As governmental resources become even tighter and corporate and
other philanthropic institutions begin to play a larger role, it may be appropriate to
consider ways to achieve a greater degree of dialogue on questions of resource
allocation, division of responsibilities for meeting community needs, and joint pub-
lic-private ventures. At a minimum, this will require developing a more complete
picture of the extent and character of the private, nonprofit delivery system and its
interaction with the public sector. Beyond this, it will likely require the establishment
of some more formal communication and decision-making apparatus to systematize
the flow of information between these two sectors and among the component parts
of each. The myth of separation that now characterizes public and private thinking
on these issues needs to broken down and more explicit recognition made of the
mixed economy that actually exists. This is not to suggest that a single, comprehen-
sive public-private planning and decision-making apparatus should be created to set
priorities and make decisions on all local funds. Such a development would be
resisted by all parties, and rightly so. But between this “red herring” and the chaotic
situation that now exists in most locales lies ample room for a middle course of
cooperation and information-sharing that could improve the use of resources and
possibly contribute to some fruitful cooperative ventures.

CONCLUSION

The partnership that has emerged between government and the nonprofit sector
in the delivery of human services is one of the more significant, though hardly
unique, American contributions to the evolution of the modern welfare state. It is
therefore ironic that this partnership has been so thoroughly overlooked in both
public debate and scholarly research. It has been the argument here that this neglect
reflects a number of shortcomings in the prevailing theories used to portray both the
welfare state and the voluntary sector. By adjusting these theories to take account of
the phenomenon of third-party government and to recognize the primacy of the
voluntary sector as a provider of collective goods and the presence of crucial "volun-
tary failures" that limit the sector's ability to perform this role, the existing part-
tnership comes into far clearer focus and its rationale becomes much easier to
understand.

The discussion here just begins to scratch the surface of the theoretical exploration
that is needed on these issues, however, and barely hints at the empirical work that is
still required to bring this partnership into clearer view.5 Hopefully, however, enough
has been said to make clear what an important and fruitful area of inquiry this is,
and to stimulate the additional work that is needed.

NOTES

This article draws on a longer exploration of the relationship between government and the nonprofit
sector in Salamon, 1987, and in a paper presented at the 1985 Annual Meeting of the Society for the Study
of Social Problems.

1. For further detail, see Salamon, 1987.

2. For a more complete statement of the criteria for choosing among theories or models of different social
or physical processes, see Salamon, 1970.

3. Burton Weisbrod, the principal architect of this theory, does acknowledge the possibility of government
subsidization of voluntary organizations, but this is treated as an exception, not as the core of our

4. This reformulation is also more consistent with American traditions of freedom and individualism,
which suggest that the creation of a sense of "social obligation" of the sort that is required to support
collective action is best done on a voluntary basis and at the local or group level, where individuals can
participate with their neighbors without sacrificing their freedom of choice (Schambra, 1982). The more
the fostering of a sense of social obligation moves away from this level, therefore, the more tenuous it
becomes. Treating government, particularly the national government, as the first line of defense for the
provision of needed collective goods, as is done in economic theory, is therefore to create a far less
secure basis for the provision of these goods than voluntary action can provide. Only when voluntary
action proves incapable, then, should government be called into action. Viewed from this perspective,
government support to voluntary organizations, and government-nonprofit partnerships, emerge as the
ideologically most palatable form that the government response to "voluntary failure" can take.

5. For a fuller statement of what is known about the partnership between government and the voluntary
sector, see Salamon, 1987.

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