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Government–Nonprofit Cooperation: Anomaly or Necessity?

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Abstract This paper challenges widespread philosophical and conceptual theories of the nonprofit sector and the state that question, or leave little conceptual room for, extensive cooperation between nonprofit organizations and government. To do so, the paper calls attention to shortcomings in the prevailing market failure/government failure theories of the nonprofit sector that have obscured recognition of key features of the sector that make cooperation with the state a natural and necessary path to effectiveness, and to certain inherent limitations of the state that make engagement of nonprofits a natural and useful path to state effectiveness. The article then outlines a set of conditions that must be met by both nonprofits and governments for this partnership to achieve the promise of which it is capable.

Résumé Cet article conteste les théories philosophiques et conceptuelles généralisées au sujet du secteur à but non lucratif et de l'État, qui interrogent la profonde coopération entre le gouvernement et les organisations à but non lucratif,

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ou qui lui laissent peu de liberté conceptuelle. Pour ce faire, l'article attire l'attention sur les lacunes des théories de défaillance du marché dominant ou de défaillance du gouvernement au sujet du secteur à but non lucratif qui ont fait perdre de vue l'appréciation des principales caractéristiques du secteur, qui font de la coopération avec l'État une démarche naturelle et nécessaire pour l'efficacité; et sur certaines limites inhérentes à l'État qui font de l'engagement des organisations à but non lucratif une démarche naturelle et utile pour l'efficacité de l'État. L'article décrit ensuite un ensemble de conditions qui doivent être remplies par les organisations à but non lucratif et les gouvernements pour que ce partenariat réalise les promesses dont il est capable.

Zusammenfassung Dieser Beitrag hinterfragt weit verbreitete philosophische und konzeptuelle Theorien des gemeinnüztigen Sektors und des Staates, die die umfangreiche Zusammenarbeit zwischen gemeinnützigen Organisationen und der Regierung in Frage stellen oder wenig konzeptuellen Spielraum zulassen. Dazu macht die Abhandlung auf Schwachstellen in den vorherrschenden Theorien des Marktversagens und Regierungsversagens des gemeinnützigen Sektors aufmerksam, die die Anerkennung wesentlicher Merkmale des Sektors verhindert haben, welche eine Zusammenarbeit mit dem Staat zu einem natürlichen und notwendigen Pfad zur Effektivität machen, sowie auf gewisse einhergehende Einschränkungen des Staates, die das Engagement der gemeinnützigen Organisationen einen natürlichen und nützlichen Pfad zur Staatseffektivität machen. Der Beitrag stellt sodann eine Reihe von Bedingungen heraus, die sowohl von den gemeinnützigen Organisationen als auch den Regierungen erfüllt werden müssen, damit ihre Partnerschaft ihr Versprechen halten kann.

Resumen
El presente documento cuestiona las teorías conceptuales y filosóficas generalizadas del sector de las organizaciones sin ánimo de lucro y el estado que cuestionan, o dejan poco espacio conceptual, a la extensa cooperación entre las organizaciones sin ánimo de lucro y el gobierno. Para hacerlo, el presente documento llama la atención sobre las limitaciones de las teorías predominantes sobre los fallos del gobierno/fallos del mercado del sector de las organizaciones sin ánimo de lucro que han oscurecido el reconocimiento de las características claves del sector que hacen de la cooperación con el estado una vía natural y necesaria para la efectividad; y sobre determinadas limitaciones inherentes del estado que hacen del compromiso de las organizaciones sin ánimo de lucro una vía natural y útil para la efectividad del estado. El artículo esboza después un conjunto de condiciones que deben ser satisfechas tanto por las organizaciones sin ánimo de lucro como por los gobiernos para que esta asociación alcance la promesa de la que es capaz.

Keywords Government–nonprofit partnership · New governance · Welfare state · Nonprofit organizations · New public management · Voluntary failure theory

Introduction

Few facets of the nonprofit sector have been as thoroughly overlooked or as commonly misunderstood as the relationships between nonprofit organizations and the state. According to widespread beliefs, government and the nonprofit sector operate in separate spheres, pursue different objectives, and are, at best, indifferent to each other, and at worst, in active competition or antagonism. Europe, we had been told, developed a "welfare state" that rendered nonprofit organizations largely superfluous while America chose to rely instead on a robust nonprofit sector financed mostly by charitable gifts.

In fact, however, recent research has revealed that much of Europe actually developed a widespread "welfare partnership" linking government to nonprofit organizations in a wide assortment of fields (Salamon and Anheier 1994; Salamon et al. 2004; Gidron et al. 1992). And government support has been a central feature of America's nonprofit landscape since the founding of America's very first nonprofit organization (Harvard College) and had grown by the late 1980s to a point where it outdistanced private charitable support to nonprofits by a factor of 4:1 (Whitehead 1973, pp. 3–16; Salamon and Abramson 1981; Salamon 1987, 1995; Smith and Lipsky 1993).[1]

How can we explain this curious blind spot in comprehending the close relationship between nonprofit organizations and government in widely disparate countries around the world? While many factors have doubtless been at work, a central one has been the inadequacy of the conceptual lenses through which we have been examining both the nonprofit sector and the contemporary welfare state. Far from calling attention to this interdependent relationship and explaining why it makes sense, existing theories divert our attention from it and provide powerful reasons to doubt it could, or should, exist (Salamon 1987).

So far as the theory of the "welfare state" is concerned, scholars and politicians alike have focused on the dramatic expansion of government social welfare expenditures that began in late 19th century Europe, and considerably later in the United States, to jump understandably to the conclusion that what has been under way has been a gigantic enlargement of the bureaucratic apparatus of the modern state and the displacement of other social institutions, among them private nonprofit groups. Both those on the left and those on the right have had reason to embrace such a "paradigm of conflict," moreover. For those on the left, denigration of the capabilities of charitable institutions has long been a crucial weapon in the battle to win political support for an expanded governmental role in social problem-solving. The left therefore had reason to exaggerate the capabilities of the state and dismiss

[1] Harvard College, America's oldest nonprofit institution, was created in the early part of the 17th century by an act of the Massachusetts Commonwealth legislature and sustained through much of its early life by a dedicated tax on corn—the so-called "college corn." As of 1898, 60 % of the funds that the City of New York was spending on the care of paupers and prisoners went to private benevolent institutions, and similar practices were evident in all but four American states (Fetter 1901/02, pp. 376, 360). Similarly, the very first national social service program in the United States took the form of a grant-in-aid to a nonprofit social service organization, and a sectarian one at that—the Little Sisters of the Poor in Washington, D.C. This program was enacted in 1874 (Warner 1894).

the capabilities of the third sector in coping with the enormous challenges of urban, industrial societies. Those on the right have had an even stronger incentive to exaggerate the power of the modern welfare state and neglect to acknowledge the growing cooperation between the state and nonprofit groups. This is so because such acknowledgement would have contradicted the conservative narrative of an inherent conflict between the state and voluntary groups and the resulting inevitable displacement of voluntary groups as the state expands its reach (Nisbet 1962).[2]

But prevailing theories of the nonprofit sector have also done little to prepare us for a robust pattern of government–nonprofit cooperation. To the contrary, they have at least implicitly made such cooperation appears to be an aberration. In the process, they have shielded us from some inconvenient truths about the nonprofit sector as well as about the changing character of modern states. And they have complicated the task that governments around the world have faced in coming to terms with the challenges confronting them in coping with important public problems for which collaboration between states and nonprofit organizations has become essential. Under the circumstances, clearing up the conceptual confusion has become not just a theoretical necessity, but also a practical step toward improving society's ability to gain traction on the fundamental challenges of persistent poverty, growing environmental degradation, deepening inequality and exclusion, and failed states that the world now faces.

To assist with this task, this article reviews some of the core tenets of recent nonprofit and public administration theorizing in an effort to establish a firmer understanding of the conceptual bases for government–nonprofit relationships, and a clearer comprehension of the prerequisites that such relationships require in order to function most effectively. To do so, the article begins by examining the foundational economic theories shaping academic conceptions of the rationale for nonprofit organizations, showing how they have downplayed the phenomenon of government–nonprofit cooperation and inadvertently reinforced ideologically rooted conceptions of the role that nonprofits play in modern society and the relationship that exists between the nonprofit sector and the state. Next, we introduce an important modification of these foundational theories that reconceptualizes the state-nonprofit relationship in ways that bring prevailing realities into much clearer conceptual and empirical focus. In the process, we show how this reconceptualization of the nonprofit relation to the state fits into a broader rethinking of the role and operation of the modern state itself. This reconceptualization puts government–nonprofit cooperation into the context of the much broader modern phenomenon of "third party government," i.e., the widespread tendency of modern governments to engage a host of private and other-public bodies in the provision of government-financed human and other services. Finally, we examine some of the challenges such third-party relationships create and indicate some ways in which such challenges can be minimized. Foremost among these is the need for nonprofit involvement not just in the delivery of government-funded human services, but also

[2] As conservative theorist Robert Nisbet (1962, p. 109) put it: "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."

in the design of the programs being delivered with government assistance. In the process, the article provides a framework against which the different national experiences detailed in the subsequent articles of this special issue can be assessed.

Part I. Prevailing Economic Theories of the Nonprofit Sector

The early economic theories of the nonprofit sector were not originally designed to explain patterns of government–nonprofit relations. The primary focus was to explain the very existence of nonprofits within the neo-classical two-sector conception of the economy. However, conceptually they provided an initial barrier to a fuller understanding of the relations between nonprofits and the state by implying the lack of a basis for such relations. Two strands of such theorizing can be discerned: one of them focusing on the demand side of the equation, that is, why clients, donors, or purchasers might prefer nonprofits in seeking to fulfill demand for some goods and services, and the other focusing on the supply side, explaining why entrepreneurs come forward to found nonprofit organizations rather than for-profit businesses.

Demand-Side Theories

Burton Weisbrod's (1975) seminal market failure/government failure, or heterogeneity, theory was among the earliest efforts to conceptualize a role for nonprofit organizations within the framework of neo-classical economics. Weisbrod's theory starts with the classical assumption of market failure—the inherent inability of the market to supply certain goods or services. This failure arises from the fact that the market only produces goods or services for customers willing and able to pay for them. But, as shown by Mancur Olson's (1965) analysis of collective action, public or collective goods, goods that can only be produced through collective action (e.g., clean air or national defense), once produced, are available to everyone independent of their willingness to pay, creating a "free-rider problem," since it is not economically rational to pay for goods or services available for free. Market mechanisms alone will therefore not lead to the production of the quantities of such goods that citizens actually desire, causing an undersupply of such public goods.

Government intervention—the assumption of public responsibility for the supply of such goods—is the standard prescription of classical economic theory for these kinds of market failures. Government as the cure for market failure, however, leaves no particular role for nonprofits, and classical economists like Vaclav Klaus of the Czech Republic have thus used this argument to refute claims for promotion of a nonprofit sector. However, as Weisbrod argued, in democratic societies, government only produces collective goods that are desired by a majority of citizens. In order to win elections, politicians accordingly tailor collective good provision to the preferences of the "median voter," which would ensure majority support. In societies in which population diversity yields highly heterogeneous collective goods demands, however, government cannot easily supply all of the collective goods demands that citizens have. This leaves considerable unsatisfied demand for such goods. It is to meet such demand, Weisbrod suggests that even classical economics must acknowledge a need for nonprofit organizations, for it is to fulfill such demand that nonprofit organizations exist. Such organizations are financed by the voluntary contributions of the dissatisfied voters interested in increasing the output of particular collective goods. Nonprofit organizations are therefore gap-fillers that emerge in response to private demands for collective goods not offered by government and not available from market providers because of their free-rider character.

Weisbrod's theory applies not only to the basic, but also to the more elaborate, forms of public goods (e.g., opera, recreational activity, religious worship, and many more), and its prediction that the number of nonprofit organizations will grow with the degree of diversity of a population appears to apply whether the diversity is defined not just in terms of the traditional indicators of ethnicity, language, age, or religion, but also in terms of wealth, income levels, occupations and professions, and many more. This latter feature has made this theory far more difficult to test empirically, however, because virtually every society has some degree of diversity along some dimensions.

What is most important about the market failure/government failure theory for our purposes here, however, is what it implies about government–nonprofit relations—and what it implies is that such relationships are unlikely to exist. This is so because the market failure/government failure theory predicts that nonprofit organizations arise precisely in fields where government does not operate and where government support is unavailable due to the lack of sufficient public demand. Indeed, Weisbrod is quite explicit about expecting nonprofits to be supported fundamentally by donative sources. A rich literature has arisen around the question of whether government support actually "crowds out" private philanthropy and, in the process, weakens the nonprofit sector. Weisbrod himself suggested a "collectiveness index" as an effort to measure the extent of "publicness" of nonprofits—meaning how the demand for a public good is reflected in the revenue structure of nonprofits in terms of voluntary donations as opposed to private fee income or public subsidies. In this measure, organizations with higher shares of donations in their revenues are shown as more "public" in nature, and therefore, more in line with what the theory suggests are their appropriate functions. Donations are expressions of preferences for collective goods not provided by either market or government. In the process, however, the Weisbrod theory delegitimizes government support for the voluntary sector and feeds a powerful social myth about the role that private philanthropy plays in the modern nonprofit sector.

The other major demand-side theory of the nonprofit sector emphasizes the element of *trust* as the key to the existence of the nonprofit sector, but it does not do much better at anticipating a robust pattern of government–nonprofit cooperation. As articulated by Hansmann (1987), this theory traces the existence of the nonprofit sector to situations in which information asymmetry impedes the operation of the market because the purchaser of goods or services is not the consumer of the goods or services. In such situations, the purchaser cannot easily know whether the good or service was worth the cost, breaking a link between consumer and producer that is crucial to market operations. Under these circumstances, an element of trust is required. Because of the so-called “non-distribution constraint”—the widespread prohibition on the distribution of profits by nonprofits to their investors, directors, or others—nonprofit organizations are considered to be less likely to cut corners or cheat consumers even in the absence of the market’s control mechanism of consumer sovereignty based on direct consumer experience with the purchased product (Hansmann 1987, p. 29). Although Hansmann’s theory can be stretched to apply to government purchasers as well as individual ones, he does not take this step and thus also leaves us bereft of a theoretical reason for believing that government–nonprofit cooperation might arise.

Supply-Side Theories

In contrast to these theories emphasizing the demand for services, a second set of economic theories focuses on the supply side of the nonprofit market and seek to explain why nonprofits come into existence, i.e., why entrepreneurs might come forward to form nonprofit, as opposed to for-profit, entities. To appreciate such supply-side approaches, one has to consider that they take a very different starting point from the demand-side theories. Instead of positing rational economic actors seeking collective benefits or a substitute for the absence of market-based economic signals, supply-side arguments posit a range of non-economic, non-monetary incentives for the creation and existence of nonprofit organizations. Thus, James (1987), for example, suggests that monetary goals may not be foremost in the minds of those who found nonprofit organizations, and even service provision to needy groups may not be as fundamental as other objectives—such as increasing the numbers of members, believers, or other types of adherents to one’s religious community. She thus posits that nonprofits will be more numerous in areas where religious competition is most pronounced. In other words, according to these theories, the presence of “moral entrepreneurs” (James 1987) or other “ideologues” (Rose-Ackerman 1996) are the likely sources of the supply of nonprofit entrepreneurs, and religious competition—not the diversity of demand for collective goods—is the real reason for the apparent growth of such organizations in areas where cultural diversity exists.

Whatever explanatory power such supply-side theories hold for understanding variations in the scale of the nonprofit sector from place to place, they still provide little basis for expecting a robust pattern of government–nonprofit cooperation. To the contrary, to the extent that government enters a field, it reduces the gap that such religious or ideological zealots can exploit for their recruitment efforts. This would hardly incline them to favor such government efforts.

In short, like prevailing conceptions of the welfare state, prevailing economic theories of the nonprofit sector—whether on the demand side or the supply side, and whether positing unsatisfied demand for collective goods or a search for an alternative to market cues for the quality or cost of various services—leave us largely adrift in explaining one of the dominant social realities of modern society: the appearance of widespread cooperation between the state and nonprofit institutions in coping with modern social and economic problems. How, then, are we to account for this widespread phenomenon?

Part II. Voluntary Failure and New Governance Theory

Fortunately, an alternative body of theory that usefully fills this conceptual gap has recently become available. Known variously as "voluntary failure," "third-party government," "new governance," or "interdependence" theory, this body of thought emphasizes the interdependence between the state and various other social actors, among them private nonprofit organizations, and sees the emergence of widespread patterns of collaboration among them as a natural consequence as opposed to an unfortunate aberration (Salamon 1981, 1995, 2002). In the process, it fits the reality of extensive government–nonprofit partnerships into a more comprehensive framework of theorizing about both the nonprofit sector and the modern state. At the same time, it identifies the conditions under which such partnerships need to operate in order to capture the advantages of which they are capable. As such, it has gained widespread acceptance as a framework for explaining and assessing patterns of government–nonprofit relationships, as well as broader patterns of state operations, globally.

Voluntary Failure Theory

Two strands of theorizing form the core of this voluntary failure line of thought. One of them—the "voluntary failure" component—relates most specifically to nonprofit organizations and seeks to explain why such organizations, whatever their origins, might turn to the state for assistance, and why both supply-side entrepreneurs and private consumers might find such an outcome desirable. The other—the "third-party government" or "new governance" component—seeks to explain why governments, consumers, (and voters) might favor such an approach.

So far as the first component is concerned, the voluntary failure theory acknowledges the problems of addressing public problems through both the market and the state, but it takes issue with the notion embodied in these other theories that the nonprofit sector is essentially derivative and secondary, filling in where these other systems fall short and operating in spheres in which the others are either incapable or unwilling to operate. Rather, it turns these other theories on their head, rejecting the view that government is always, or even usually, the first line of defense in cases of market failure, and seeing voluntary organizations as the primary response mechanism instead—even where extensive state systems of service provision are available, but where new problems arise to which state systems are slow to respond or where higher quality of performance is demanded than state-centered systems are able to supply.

Ironically, the central argument for this reformulation can be found in part in Weisbrod's emphasis on the failures of government, though he does not reach this conclusion in his analysis. As Weisbrod acknowledges, even in democratic polities, it is difficult to get government to act in response to public problems. Put differently, 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 governments, whether democratic or undemocratic, to act in response to some public problem, information must be assembled, substantial segments of the public must be aroused, public officials must be informed and persuaded, proposed solutions must be developed, laws must be formulated and passed, and programs must be put into operation. All of this takes time and resources. By contrast, to generate a voluntary-sector response, a handful of individuals, whether motivated by religious impulse, ideological fervor, professional conviction, or personal experience can take the initiative on their own to address a problem. This highlights a unique characteristic of nonprofit organizations: alone among societal institutions, they are capable of mobilizing *individual initiative* for the *public good*. This differentiates them from market institutions, which mobilize individual initiative but for *individual gain*, and from governmental institutions, which pursue the public good but do so through *collective* action (Salamon 2012). It is therefore reasonable to expect that the private, nonprofit sector, not government or business, will frequently provide the first line of response to perceived "market failures."

But why would government–nonprofit cooperation result from such a situation instead of the splendid isolation posited by the economic theories? The answer to this question lies in the reality that, for all their advantages, nonprofit organizations have their own significant limitations that constrain their ability to respond to public problems. In addition to "market failure" and "government failure," in other words, there is "voluntary failure"—i.e., inherent limitations of the voluntary sector as a mechanism for meeting public needs (Salamon 1987, 1995). These include

- First, *philanthropic insufficiency*: the inability of voluntary organizations to generate the scale of resources adequate and reliable enough to cope with the human service problems of an advanced industrial society. What is more, philanthropic resources are often available where they are needed least and least available where they are needed most. Coupled with the inability of nonprofit organizations to generate equity capital due to the legal barriers on their distribution of profits, the result is too often an inability of nonprofit organizations to "scale up" their operations;
- Second, *philanthropic particularism:* the tendency of nonprofits and donors to focus on particular groups of clients or particular geographic areas to the exclusion of others. This creates enormous disparities in the provision of needed assistance;
- Third, *philanthropic paternalism:* the difficulty these organizations have in establishing *rights* to benefits, as opposed to *privileges,* and hence the difficulty they have in fostering a true sense of empowerment self-worth; and
- Fourth, *philanthropic amateurism:* the lack of professionalism in volunteer-driven organizations and the consequent difficulty in bringing truly professional approaches to bear on complex human problems.

Significantly, these inherent limitations of the private nonprofit sector are mirror images of inherent strengths of government. Thus, for example, government's coercive powers, including the power to tax, can overcome the free ridership of voluntary contributions and mitigate the philanthropic insufficiency of the voluntary sector. As one early student of American charity observed: "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…" (Warner 1894, p. 306). Similarly, government's concern for equity and entitlements is a useful antidote to the particularism of the nonprofit sector. Through legitimate, democratic decision-making procedures, it can establish access to certain benefits as a "right" of citizens as opposed to a "gift" from wealthy donors. As such, it can counter the paternalism often characteristic of the charitable giving. So, too, through its ability to set quality standards and professional certification requirements, as well as its ability to provide resources sufficient to retain professional talent, it can overcome the amateurism that often limits even the most dedicated volunteer staff.

Third-Party Government and New Governance Theory

But why would government turn to nonprofit organizations to assist in supplying such public goods, and why might consumers and taxpayers support this? To answer this question, we must turn to the second component of the interdependence line of theories, which is known variously as "third-party government" or "new governance" theory (Salamon 2002). This theory takes account of a variety of other "government failures," or systematic limitations on government operations, beyond those identified in the "government failure/market failure" theory discussed above and that have been highlighted as well by advocates of the so-called "new public management" and "public choice" theories as well.

Large government bureaucracies, it turns out, can become highly inefficient and overly cumbersome and unresponsive. Worse yet, according to some theorists, their personnel are too often driven by cravings for power and resources rather than by the selfless pursuit of the public interest (Tullock 1965). Other limitations of state action have also recently become evident. While suitable for delivering common-issue services, they lack the flexibility needed for many crucial human services, which must be delivered at a human scale by institutions capable of considerable flexibility. What is more, given the growing complexity of the problems government is being called on to address, governments often lack the resources and talents needed to respond effectively (Agranoff 2007; Goldsmith and Kettl 2009). It has become clear, for example, that going after complex non-point sources of pollution requires the mobilization not only of governmental capacities, but also broader citizen capacities through watershed alliances, "stream teams," and other forms of citizen mobilization (Siriani and Friedland 2001; Wurzel et al. 2013, pp. 77–132; Ringling 2002).

These various criticisms have given rise to a "public choice" theory of government and to the "new public management" (NPM) school of thought (e.g., Osborne 2006; Plumptre 1993; Lane 2000; Tullock 1965). The central argument of the NPM theory and its American counterpart, known as "reinventing government," was that these shortcomings in government operations could be overcome by introducing business-style management techniques such as strategic planning, management by objectives, evidence-based decision-making, and incentive-based reward systems into the administration of the public sector. The focus, in short, was heavily on the internal operations of government agencies. The central premise was that government agencies need to be radically streamlined, their internal operations subjected to market-type incentives, and many, if not most, of their functions outsourced to private organizations through contracts and so-called "quasi-market" arrangements (LeGrand and Bartlett 1993a, b; LeGrand 2011).

New Governance Theory acknowledges many of the problems that have inspired the NPM, but parts company with the NPM approach on three crucial grounds. In the first place, New Governance Theory calls attention to the fact that the central premise of NPM—that major problems of public sector performance arise from the fact that government agencies are tightly structured hierarchies insulated from market forces and from effective citizen pressure, and therefore free to serve the personal and institutional interests of bureaucrats instead—does not characterize government operations in most of the countries at which the theory was aimed, and has not for decades. In a sense, NPM provided the right answer but to the wrong question in public administration reform (Salamon 2005). That question was: "How can hierarchical government bureaucracies be reshaped and re-invented to improve their performance?"

Largely overlooked in the NPM analysis, however, is the extent to which the operation of modern government in many of the countries around the world already embodied many of the features that the NPM reformers were proposing. Indeed, a veritable revolution had taken place in the operation of the public sector during the 50 years or more before this theory emerged, at least in much of the developed world. The heart of this revolution has been a fundamental transformation not just in the scope and scale of government action, but also in its basic *forms*—in the *tools* of public action, the instruments or means used to address public problems. Where government activity used to be restricted largely to the direct delivery of goods or services by government bureaucracies, increasingly it has come to embrace a dizzying array of additional tools—loans, loan guarantees, grants, contracts, social regulation, economic regulation, insurance, tax expenditures, vouchers, and many more. Indeed, an elaborate system of "third-party government" had come into existence engaging government agencies in complex collaborations with a host of third-party actors enlisted to aid governments in the provision of publicly financed services (Salamon 1989, 1995, 2002; Milward and Provan 2000; Evers 2005).

Certainly this has been a central feature of the American approach to public problems for decades and has involved collaboration not only with nonprofit human service, education, health, and related organizations, but also with a wide assortment of for-profit banks, industrial firms, construction organizations, and many more (Salamon 1995, 2002). This is how the United States built its railroads and canals, supplied its troops in wars, financed many of its private colleges, carried out health research, built many of its cultural institutions, revolutionized its agriculture, promoted homeownership, and dealt with the influx of immigrants into its cities. Behind the potent myth of voluntarism through which 19th century America is often viewed, for example, lies a solid reality of extensive collaboration between local governments and private nonprofit groups. Indeed, by the end of the 19th century, many cities and states heavily supported private voluntary institutions to take care of the poor as well as prisoners, and this arrangement expanded massively when the national government entered the human service field in the mid-1960s.[3]

But this pattern of third-party government has hardly been restricted to the American scene. To the contrary, it is widely evident in countries throughout the world. Indeed, research carried out by teams of scholars working under the auspices of the Johns Hopkins Comparative Nonprofit Sector Project discovered that the much-vaunted European "welfare state" turns out on closer inspection to be a widespread "welfare partnership" involving extensive collaboration between government and the nonprofit sector. As the chapter on the Netherlands in this special issue shows, such arrangements were put in place in that country as early as 1917, and they have long been in operation in countries such as Germany, Belgium, Ireland, and Austria as well. Reflecting this, these countries boasted nonprofit sectors accounting for 10–15 % of their labor forces and financed 60–70 % from government funding through a variety of third-party arrangements (Salamon et al. 2004; Ringling 2002; Eliadis et al. 2005; Bode 2014). Clearly, a theory advancing as a solution to inadequate public sector performance a strategy that was already widely in place in a significant number of countries could hardly be relied on as a sufficient guide to the improvements that were needed—something else must be involved in the unsatisfactory performance of government than this.

This brings us, therefore, to a second departure of the New Governance Theory from the prevailing NPM approach. One of the comforting assumptions of NPM is that outsourcing governmental functions to third parties, and reliance on quasi-market mechanisms such as vouchers and tax expenditures simplifies governmental operations. According to this theory, such mechanisms capture the inherent efficiencies and automaticity of the market instead of having to rely on the cumbersome and inefficient mechanisms of public administration to achieve their results.

The New Governance Theory, by contrast, acknowledges the enormous challenges that attend the operation of indirect, third-party government. It does so by calling attention to a new "unit of analysis" in public management work. Where both traditional public administration and the NPM focus on the internal operations of *public agencies* as the central unit of analysis, the New Governance Theory shifts the focus instead to the distinctive *tools* or *instruments*—such as loans, grants, loan guarantees, contracting, regulation, insurance, tax expenditures, vouchers, and many more—through which public action is increasingly carried out. Each of these tools has its own operating procedures, its own skill requirements, its own delivery mechanism—indeed its own "political economy." Each therefore imparts its own "twist" to the operation of the programs that embody it. Loan guarantees, for example, rely on commercial banks to extend assisted credit to qualified borrowers.

[3] By the start of the 21st century, direct provision of goods or services by government bureaucrats accounted for only 5 % of the activity of the U.S. federal government. Even with income transfers, direct loans, and interest payments counted as "direct government," the direct activities of the federal government amounted to only 28% of federal activities. Far larger in scale, and accounting for over 70% of the federal government's financial activities, were the more indirect instruments of public action—contracting, grants-in-aid, vouchers, tax expenditures, loan guarantees, insurance, and regulation, to name just a few (Salamon 2002). While it is true that more direct activities are carried out at the state and local level in the United States, third-party government is a familiar and growing practice at these other levels as well (Goldsmith and Eggers 2004; Agranoff and McGuire 2003).

In the process, commercial lending officers become the implementing agents of government lending programs. Since private bankers have their own worldview, their own decision rules, and their own priorities, left to their own devices, they will likely produce programs that differ markedly from those that would result from direct government lending, not to mention outright government grants.

What is more, like loan guarantees, many of the most increasingly prevalent tools turn out to share a common feature: they are highly *indirect*. They rely on a wide assortment of "third parties"—commercial banks, private hospitals, social service agencies, industrial corporations, universities, daycare centers, other levels of government, financiers, construction firms, and many more—to deliver publicly financed services and pursue publicly authorized purposes.

What is involved here, moreover, is not simply the delegation of clearly defined ministerial duties to closely regulated agents of the state. That is a long-standing feature of government operations stretching back for generations. What is distinctive about many of the newer tools of public action is that they involve the sharing with third-party actors of a far more basic governmental function: *the exercise of discretion over the use of public authority and the spending of public funds*. And thanks to the information asymmetries between principals and agents highlighted by the "principal-agent theory" of modern organizational theory, a major share—in many cases *the* major share—of the discretion over the operation of public programs routinely comes to rest not with the responsible governmental agencies but with the third-party actors that actually carry them out (on "principal-agent theory," see: Moe 1984; Pratt and Zeckhauser 1985; Kettl 1993).

Under these circumstances, the operation of indirect government actually turns out to be far more complicated and demanding than the operation of direct government. Where the latter "internalizes transactions" (Leman 2002), the former requires the anticipation of a wide range of potential contingencies to be structured in advance into formally binding contracts. Where the latter permits close supervision of governmental personnel, the latter requires complex negotiations with independent agencies over of which government agencies have at best imperfect control. The result is not to eliminate or significantly scale back the need for public management, but to necessitate its expanded involvement, but in a new mode—as the balance wheel protecting important public interests in complex collaborative relationships involving multiple actors pursuing varied combinations of objectives within the structure of government-funded or -authorized programs. For this task, a new type of public manager is needed, one skilled in the techniques of network management and armed, not with the trappings of command and control, but with the more subtle techniques of negotiation and persuasion (Salamon 2002, pp. 16–18; Salamon 2005; see also Donahue and Zeckhauser 2011; Goldsmith and Eggers 2004).

Finally, unlike the NPM, which tends to emphasize reliance on the market and on market enterprises to take on functions formerly performed by governments, the New Governance Theory emphasizes as well the significant strengths that nonprofit organizations can bring to the provision of publicly financed services. This is so because nonprofit organizations offer significant advantages in delivering the services that governments are increasingly called on to provide. Among these, at least potentially, 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 often created by government funding "silos," 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; and
- Mechanisms for promoting other important social values, such as group and individual freedom, diversity, a sense of community, and civic activism.

Because of these features, nonprofits can deliver human services at a human scale, and, unlike for-profits, are less driven by the need to maximize profits and can thus endure dips in revenue that too often drive for-profit providers from a field. They thus have staying power—which is exceptionally important in fields where vulnerable clients rely on providers for assistance.

For all of these reasons, the New Governance Theory concludes that "the voluntary sector's weaknesses correspond well with government's strengths, and vice versa." Thus, extensive collaboration between government and the nonprofit sector emerges not as an unexplained aberration but as "a logical and theoretically sensible compromise" both for government and the third sector (Salamon 1995, pp. 48–49; Salamon 1987). Indeed, this feature has made the New Governance Theory especially attractive to European analysts, who faulted the NPM orthodoxy for failing to appreciate the challenges and subtleties of Europe's collaborative "welfare mix" and thereby threatening to create a dysfunctional and excessively commercial system of private provision (Ascoli and Ranci 2002; Evers 2005; Bode 2006). This in turn led to a growing disillusionment with market-based privatization and the business mechanism focus of the NPM movement. Since the beginning of the 2000s, NPM has therefore largely been overtaken by New Governance Theories that de-emphasize the need for market incentives and focus instead on service networks and the role of government in orchestrating a wide range of third parties. As Bode and Brandsen (2014, p. 1056) point out, for European observers of the modern state, "collaboration with the third sector is superior to mere public sector provision, given that the sector exhibits a particular potential of identifying the needs of citizens and may contribute to a more cost-efficient delivery through the use of volunteers." Despite its American origins, in other words, the tools of government approach have therefore immediate and growing applicability in both the Western European as well as Central European and Russian contexts, and likely more generally as well.

Overall, the voluntary failure theory and its broader New Governance conception thus emerge as two components of a particularly useful conceptual framework for both assessing and explaining patterns of government–nonprofit relationships. What is more, these notions have received broad empirical support for their core tenets. For example, the latest empirical validation utilized extensive datasets to explain variations in nonprofit sector density across the United States and concluded that government funding has greater effects on the density of human service nonprofits than private charitable support—thereby supporting voluntary failure theory at the expense of heterogeneity theory (Lecy and van Slyk 2013).

Part III. Coping with the Challenges of Third-Party Government and Government–Nonprofit Cooperation

To say that third-party government and its specific manifestation in government–nonprofit cooperation holds, enormous promise as a way to finance and deliver public services is not to say that this pattern is without its challenges. 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 at least four potential dangers: (a) the potential *loss of autonomy* or independence that some fear can result from heavy dependence on government support; (b) "*vendorism*," or the distortion of agency missions in pursuit of available government funding; (c) *bureaucratization,* or over-professionalization resulting from government program and accounting requirements; and (d) the stunting of *advocacy activity* in order not to endanger public funding streams (Salamon 1995; Toepler 2010).

Writing in 1995, Salamon (p. 104) pointed out that "The message that emerges from the limited analysis to date is that many of the concerns about the partnership [in the American context] have not materialized to anywhere near the extent feared." This general conclusion was confirmed on a wider scale in a 2010 article in which Toepler (p. 328) reported, based on a thorough review of the literature, that "There seems to be a rather disappointing near-dearth of empirical work testing the assumptions of the pathological effects of government support."

Nevertheless, the concerns are real and deserve attention, especially as the experience with government–nonprofit relations moves from countries with generally open political systems and multiple points of entry through which to fend off undue governmental influence to those in which resistance to such influence is harder to maintain. Certainly, the risks are real where financial dependency is high, and governments enjoy total, or near-total, control over available resources, as resource dependency theorists suggest (Pfeffer and Salancik 1978). Consequences can include the loss of an agency's ability to determine its own mission and goals or to set programmatic preferences and priorities freely (Anheier et al. 1997; Jung and Moon 2007). One way to minimize these risks is to nurture alternative sources of revenue—from charitable contributions, contributions of time, or fee-based income. Another is to diversify the sources of governmental support by approaching multiple offices or levels of government. More generally, nonprofit providers can take advantage of the information asymmetries identified in principal-agent theory as a major barrier to the type of detailed control that government funding is often feared to created. Research in the United States has seemed to confirm this by documenting the unclear objectives and law review built into many human service contracts—making it possible for agencies to deliver the services they wanted rather than the ones government might have preferred (DeHoog and Salamon 2002, pp. 331–2).

"Vendorism," or the perennial pursuit of government contracts without much regard to the particular objective or any involvement in setting the policy being pursued (Kramer 1981, p. 153), is a particular concern with the government contracting tool and has attracted a large literature both in the American context and elsewhere (see, for example: Smith and Lipsky 1993; Smith 2010; Ascoli and Ranci 2002; Buckingham 2012). Aside from the loss of mission focus, concerns arise over a number of more concrete specific managerial challenges that contracts pose for nonprofits, including payment delays, cash-flow management, off-putting contract boilerplate, limited coverage of true costs, disputed payments, limited contractual time-horizons, contract close-out disputes, and contract renewal problems. As public service contracting becomes more prevalent elsewhere, as in the U.K., for example, similar challenges and tensions for different types of local contractors also become more evident. Being typically undercapitalized and lacking financial slack makes it difficult for nonprofits to absorb the sudden cash-flow changes which result from delayed contract payments, underestimations of the actual costs involved in the contract, or other unanticipated expenditures. The resulting financial insecurity seems almost endemic to contracting arrangements. Worse yet are the pressures that contracts frequently create to displace organizational commitments to traditional community constituencies in order to comply with public sector equity and other norms (Smith and Lipsky 1993). In religiously affiliated organizations, for example, this can lead to a secularization of service delivery, as the article by Brandsen and Pape in this special edition demonstrates.

Perhaps a more pervasive, if subtle, consequence of government–nonprofit cooperation is the impact it can have on nonprofit organizations *qua* organizations. In a word, government–nonprofit cooperation can lead to the bureaucratization of nonprofit organizations. This results less from having to adapt to public sector values than from having to conform to the administrative procedures involved in applying for and managing government funds. Contracting rules for human services frequently build on the procedures used for other government procurement, which frequently call for a level of specificity and evidence of financial and administrative record-keeping that small nonprofits may find it difficult to provide. What is more, government program requirements, often advanced by nonprofits themselves in order to keep for-profit competitors at bay, frequently require certifications of staff capabilities and specified levels of service provision that smaller nonprofits may find it challenging to provide. Complicated reimbursement systems of the sort required for voucher-type programs only add to the difficulty and the resulting need for more professional, and more costly, staff.

A final major concern about government–nonprofit collaboration concerns the ability of nonprofits to pursue their advocacy or lobbying responsibilities while working closely with government agencies. To be sure, the evidence here is uneven. In the American context, it is uncertainties about the legal status of advocacy and lobbying, rather than politically inspired hostility to it, that seems to impede greater advocacy involvement (Bass et al. 2007). Salamon and Geller (2008) report that, far from declining, nonprofit involvement in advocacy activity actually increases with increases in government support, suggesting that nonprofits with a stake in public policy are more likely to engage in efforts to shape it. Neumayr et al. (2013) confirmed this finding at the international level, finding no negative impact of receipt of government funding on nonprofit likelihood of participating in advocacy activity, and pointing to other factors, such as organizational size, as more being likely to explain low levels of nonprofit advocacy.

Whatever the specific problems might be that arise in government–nonprofit cooperation, the underlying concern is that involvement in government programs will erode the distinctive roles and contributions that attract governments to partner with nonprofits in the first place. While some observers question how fully these distinctive roles and contributions still survive (Pestoff and Brandsen 2010), in practice, this means that a balance must be struck between the government's need for economy, efficiency, equity, and accountability and the nonprofit sector's need for a degree of self-determination and independence from governmental control. Based on the existing literature, it is possible to identify at least three clues about how this can best be done.

Accommodation by Government of the Organizational Needs of Nonprofit Organizations

In the first place, as noted above, care must be taken not to structure the government–nonprofit partnership in ways that undermine the distinctive characteristics of the nonprofit sector. This can occur if administrative arrangements are too cumbersome or confining; if performance requirements are too burdensome; or if special attributes of nonprofits, such as their community roots or their ability to give voice to new needs, are somehow curtailed.

Of special concern here is the advocacy function of nonprofits—the ability to give voice to the voiceless and call important matters of policy to the attention of governmental authorities. Indeed, these organizations may be in a unique position to serve as a link between individuals and communities, on the one hand, and the broader political process on the other. They can thus serve as a social safety valve, providing a way to bring group concerns to broader public attention and to push for policy or broader social change (Pekkanen et al. 2014; Hayes 1996). Indeed, there is a growing consensus among experts that committing to both service and advocacy is a key to high performance by nonprofits (Bass et al. 2014). For example, in their book, *Forces for Good*, Crutchfield and Grant (2008, pp. 30–54) highlight "advocate and serve" as the first of six recommended high-impact practices of effective nonprofit organizations. In a related article, the authors report that: "High-impact organizations…eventually realize that they cannot achieve large-scale social change through service delivery alone…. Ultimately, all high-impact organizations bridge the divide between service and advocacy" (Grant and Crutchfield 2007, p. 35).

Special Attention to the Management of the Partnership

As we have seen, although outsourcing services to nonprofits or other third-party actors is often assumed to reduce the management challenges of government, it more likely increases them (Salamon 2002, p. 38; Kettl 2002, pp. 490–510; van Slyke 2003). Indirect tools require advanced planning of far more operational details than is the case with more direct tools. In addition, incentives must be carefully structured to achieve the desired result from entities over which government has only imperfect control. And all of this must be done while avoiding damage to the underlying characteristics of the third-party partners.

Two sets of considerations have been identified in the literature as contributing to effective management of such partnerships: first, *operational features* that take account of the capabilities and needs of the government's partner; and second, *access* for the partners to the design of the programs that form the heart of the partnership.

Regarding the *operational features,* governments often try to bring to the management of their partnerships the same procedures that govern the internal management of their own organizations. This is often a prescription for problems. Instead, attention needs to be devoted to operational features conducive to the needs of the partners as well, such as:

- Payment schedules on grants and contracts that avoid costly cash-flow problems for nonprofit organizations;
- Avoidance of undue interference with the non-service 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; and
- Continued encouragement of private giving, which is crucial for the preservation of an element of independence and flexibility for nonprofit agencies.

Beyond this, mechanisms for engaging partners in the design of programs can improve partnership operations. Nonprofit organizations often have knowledge of programmatic needs that can improve the effectiveness of programs; without access to the design phase of programs, and without continuing channels through which to offer suggestions for mid-course corrections, however, they can lose the opportunity to bring this knowledge to bear and be frustrated as a result.

Many European countries have established formal consultative relationships between the nonprofit sector and government to avoid this problem. In some cases, this takes the form of formal channels of consultation and joint policy development. A good example of this is the German system, which is based on the principle of subsidiarity in welfare provision. The doctrine of subsidiarity essentially holds that the responsibility for caring for individuals' needs should always be vested in the units of social life closest to the individual—the family, the parish, the community, the voluntary association—and that larger, or higher level, units should be entrusted only when a problem clearly exceeds the capabilities of these primary units. What is more, the doctrine holds that the higher units have an obligation not only to avoid usurping the position of the lower units, but to help the lower units perform their role.

In Germany, the subsidiary principle was fully established in the Social Assistance Act of 1961, which obliges the "public bodies responsible for social assistance" to "collaborate with the public law churches and religious communities, and with the free welfare associations" and to do so in a way that acknowledges "their independence in the targeting and execution of their functions." In a sense, therefore, nonprofit organizations are not only guaranteed a share of public resources, but also a share of the authority for making public policy (Salamon and Anheier 1998).

While Germany's arrangements are long-standing and firmly enshrined in law, a slightly different arrangement with the same general objective has taken shape in the UK and has been copied by a number of other countries.

The vehicle here was the Voluntary Sector Compact. Worked out in collaboration between the UK government and the voluntary sector in the mid-1990s, the Compact commits the government to funding, to streamlined funding procedures, and to the involvement of voluntary-sector organizations in the design of public policy in the areas in which they operate (Plowden 2003). While the implementation of these arrangements has not been without issues, the idea of formal compacts has spread to a number of different countries over the last ten to fifteen years (Reuter et al. 2014).

Attention to the Tools of Action through which Partnerships are Effectuated and a Level Playing Field for Nonprofits

A third clue to the effective operation of partnerships is paying serious attention to the particular tools through which partnerships are effectuated. This attention to the tools of action is a central feature of the New Governance Theory (Salamon 2002). Tools structure partnerships. In the process, they determine the operating procedures of programs, the partners on which programs will depend, and the degree of discretion left to these partners. Inevitably, some tools are more advantageous to nonprofits than others. Generally speaking, producer-side subsidies such as grants or contracts are much preferred to consumer side subsidies such as vouchers and tax expenditures, because the former deliver their benefits directly to the organizations whereas the latter put the resources in the hands of consumers, who can "shop" among providers. This puts nonprofit organizations at a disadvantage because they generally lack marketing skills and access to capital due to the constraint on their distribution of profits to potential shareholders. Lacking access to investment capital, they find it difficult to expand to meet the new demands often triggered by new government voucher programs. A key to the success of nonprofit providers in such circumstances is therefore to level the playing field for access to capital on their part, which can be done by offering various subsidies to investors in nonprofit organizations in these fields. The alternative is to trigger a significant loss of nonprofit market share as for-profits raise capital through stock issues and rapidly expand the supply of facilities to absorb the government-induced expanded demand for services—a process that has been very much under way in the United States (Salamon 2012, pp. 29–31, 2015, pp. 40–43). What is more, nonprofits typically prefer grants over contracts because grants typically offer more leeway for the beneficiary organizations, whereas contracts involve higher levels of specificity and mechanisms of accountability (van Slyke 2006). Tool knowledge, and knowledge of the particular design features of the tool embodied in a particular program, can thus determine the actual impact that involvement in a program can have for nonprofits. Attention to this facet of government policy would thus pay enormous dividends for both governments and nonprofit partners.

Conclusion

Despite prevailing, mostly economic, theories of the nonprofit sector, which treat government–nonprofit cooperation as, at best, an unexpected outcome and, at worst, a serious and unfortunate aberration, such cooperation has grown massively around the world and appears poised to continue to do so into the foreseeable future. As this article makes clear, however, prevailing theories of both the nonprofit sector and the state contain serious blind spots that have made it difficult for them to imagine how such cooperation could make both theoretical and practical sense. Partly as a consequence of this, opportunities to visualize and build upon such partnerships have not been fully enough taken or carefully enough structured.

Armed with the twin theoretical insights of "voluntary failure" and the New Governance, however, this option for pursuing public sector objectives comes fully into view not only as a theoretically legitimate, but also as a substantively necessary, means through which to improve the way societies address growing social, economic, and environmental challenges. As it turns out, the strengths of the nonprofit sector as a provider of public goods nicely complement the limitations of government both in originating and delivering such goods, while the strengths of government as a generator of revenue and of rights to benefits nicely complement the limitations of the nonprofit sector in these same areas. Hence, far from an aberration, government–nonprofit cooperation emerges through the lens of these theories as a logical outcome of mutual interdependence and a highly effective way to organize a wide assortment of publicly financed services.

What is more, government–nonprofit cooperation—and the broader patterns of third-party government of which they are a part—provide a more compelling and encompassing conceptual map to a desirable future of public problem-solving than either the more limited and narrow NPM prescription or continued reliance on direct government alone.

For such a future to come within reach, however, greater attention will need to be paid to the dynamics built into the different tools, or instruments, through which programs are carried out. Among other things, this will require a new, collaborative style of public management and the engagement of government's partners not only in the execution of government programs, but also in their development and design.

And it will require clearer understanding of how these tools operate and what consequences they have for those who benefit from them, for those who pay the bills, and for those who actually deliver the benefits. It is to the task of building that understanding that attention now needs to turn.

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Compliance with Ethical standards

Conflict of Interest The authors declare that there is no conflict of interest.

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