
Civic Infrastructure in America: Government and the Nonprofit Sector

For those who worry about the condition of America's civil society, the fate of membership organizations that depend on local volunteers is a matter of particular concern. Robert Putnam has reported that over the past few decades, the growth of the nonprofit sector has not been primarily in traditional membership groups such as the Elks or the PTA. Instead, growth has been concentrated in advocacy and service provider organizations linked to the state. Some critics charge that this trend has led to a deterioration of voluntarism and civic engagement. Many nonprofits, these critics say, never become an integral

*Over the past few decades,
the growth of the nonprofit sector has been
concentrated in advocacy and service provider
organizations linked to the state.*

part of their communities. Instead of developing the capacities of ordinary citizens, they concentrate power and resources in the hands of paid staff and "credentialed elites." And as a result, the indictment concludes, these groups have been sadly ineffective in resolving social problems, especially those connected with urban poverty.

In this essay, I examine the changing character of nonprofits in the postwar period, with a special emphasis on service providers. I consider why the government has encouraged the formation and expansion of these groups, and whether they have indeed supplanted networks and organizations that rely on direct volunteer involvement. I also ask how reductions in state support are affecting nonprofits and the communities they serve.

More generally, this essay addresses the civic infrastructure of local community as it relates to the provision of social welfare and health services. While "civic infrastructure" is subject to different definitions, I will use it to refer to the network of public and voluntary associations in a community and their capacity to address social problems. The rise of nonprofit service agencies in the postwar period, funded extensively by government, altered the civic infrastructure. More

recent shifts in federal policy, including welfare reform and devolution, raise new questions about local civic infrastructure in the United States.

The Postwar Transformation

Prior to the 1940s, some private service agencies in America received cash or in-kind assistance from the state. This aid tended to be small-scale, with little public oversight or monitoring. Many service providers were in fact opposed to accepting government funds, viewing their mission as private and separate from government.

The postwar years represented a dramatic change in the government-nonprofit relationship and the role of nonprofits in society. The federal government became less reluctant to fund private organizations, and in turn, these organizations became less resistant to the idea of accepting public money. In response to the imperatives of the war, federal funding for defense-related research at large nonprofit research universities rose sharply; after the war, government support for defense and energy-related research continued to rise.

*Recent shifts in federal policy,
including welfare reform and devolution,
raise new questions about
local civic infrastructure.*

Diversification also occurred: in the late 1940s and 1950s, the federal government inaugurated several new grant programs in education, mental health, developmental disabilities, public health, and child welfare.

Federal support for nonprofit organizations was provided in several ways other than direct grants. For example, the GI Bill offered financial assistance to individuals, spurring greater access to and demand for higher education. Other federal initiatives helped nonprofit organizations with their capital needs. The federal Hill-Burton Act, for example, provided hundreds of millions of dollars to nonprofit (and public) health organizations for renovation and new construction. Federal grant-in-aid programs to the states offered

funding for efforts to improve regulations and standards for health and welfare services. And, the federal government offered technical assistance to nonprofit organizations and state and local governments to reform and upgrade their programs.

At least initially, the change in nonprofit revenues and programming was not particularly dramatic: during the 1950s, most nonprofit health, educational, and welfare organizations remained dependent upon fees, endowment income, and donations. Fee income was especially important as a revenue source: universities depended upon tuition; social welfare agencies relied upon client fees; and hospitals depended primarily upon a mix of private insurance payments and income from patients. The importance of donations as a source of support varied tremendously from one organization to the next. Social welfare agencies often received small

In the 1950s, many nonprofit service agencies saw themselves as separate from the public sector.

cash and in-kind donations from individuals and funds from the United Way—or the Community Chest, as it was known in the 1950s. But the Community Chest typically supported the established community agencies such as the American Red Cross, the Boy Scouts and Girl Scouts, the YMCA, and family service agencies. These agencies had been founded in the nineteenth century or the early part of the twentieth; few agencies founded in the postwar period, such as community programs for the developmentally disabled, received Community Chest funds.

The universe of service agencies was still relatively small by today's standards; even long-standing nonprofit agencies had meager budgets—often less than \$50,000 for agencies founded in the nineteenth century. Most nonprofit service agencies continued to see themselves as separate from the public sector. Except for selected child welfare agencies and service agencies in some urban areas such as New York City, nonprofit agencies were distinctly separate from public service agencies. They played a niche or residual role in the service system, providing counseling for families and children, recreational programs for youth and adults, transitional shelter, and emergency assistance.

Individuals needing intensive or long-term assistance were usually served by public agencies: state hospitals and schools for the mentally ill and developmentally disabled; training schools for juvenile delinquents. Cash assistance for the poor was provided by county welfare departments, and public housing by state and local authorities. With respect to health care,

the situation was more variable. But in many regions of the country, notably the South and West, nonprofit community hospitals were supplemented by a network of public hospitals serving the poor and the working classes.

In short, a community's response to social need involved a sizable effort from the public sector and a specialized response by private service agencies. The capacity of nonprofits to sustain their operations without significant public funding hinged upon the willingness of the public sector to shoulder responsibility for the poor and disadvantaged, albeit inadequately in many areas.

The War on Poverty and Beyond

This public and private mix of services faced growing criticism in the late 1950s and early 1960s. Activists charged that state hospitals and state schools were dehumanizing institutions which deprived the residents of their basic human rights, and that private service agencies neglected the poor and minorities in favor of the middle class and the wealthy. Implicit in these critiques was the view that the civic infrastructure of local communities—i.e., the combined efforts of public agencies, voluntary service agencies, and individual citizen volunteers—was hampered in its response to social need by scarce resources, inexperienced agency staff, and political opposition from local

The political climate became conducive to a major expansion of the federal role in social programs.

leaders. By the 1960s, the political climate had become conducive to a major expansion of the federal role in social programs.

For the most part, the War on Poverty and other new federal health and social welfare initiatives were implemented through new and existing nonprofit service providers at the grass roots. Programs as diverse as Head Start, community mental health centers, and programs for at-risk youth were primarily nonprofit programs funded by the federal government—either directly or through grants and contracts administered by state and local governments. Federal regulations and the new funds also provided incentives for state and local governments to increase their contracting with nonprofit social and health organizations. Many of the new contracts were with entirely new nonprofit organizations, created either by government officials or by local advocates in response to the availability of government funds.



Board members, staff, and volunteers from Chase-Brexton Health Services—a nonprofit, community-based health care provider for people with HIV—take part in the Baltimore Pride Parade, June 1997.

Federal funding stimulated the growth of nonprofit service agencies and related advocacy organizations through other avenues than direct contracting. Higher levels of cash assistance for the poor and disadvantaged allowed many people previously excluded from agency programs to pay for various services (sometimes the cash assistance went directly to the agency). New eligibility for services such as health care spurred greater demand for these same programs. The new federal initiatives also encouraged the growth of national advocacy organizations such as the National Association of Community Mental Health Centers and state associations such as the Massachusetts Council of Human Service Providers, which then pushed for more funding of nonprofit service agencies.

One important characteristic of the new nonprofits needs to be stressed: these organizations were providing services which were for the most part unavailable prior to the 1960s. Examples include community residential programs for the developmentally disabled, outpatient services for the chronically mentally ill, home care, shelters for domestic violence victims, and innovative intervention programs for abused children. At the same time, many of these nonprofits represented a form of privatization, assuming societal

responsibilities that had once been carried out by public institutions such as state welfare agencies or state hospitals.

The new service providers differed in important respects from traditional organizations. For instance, the older nonprofits tended to have large boards of directors, composed of community leaders. The boards of the newer agencies were more diverse, but smaller, and members were often recruited for their interest in a particular service, such as mental health, rather than for their links to the local community. There was seldom a general voting membership made up of local citizens. Thus, the structure of the newer agencies did not promote extensive community ties. Moreover, public funding encouraged these groups to focus their attention on government policy—for example, influencing government rate-setting and regulatory procedures—and not the cultivation of local support.

The new service providers generally lacked volunteers and depended heavily upon paid professional staff. The national and state advocacy groups were either small, staff-driven organizations or larger membership organizations that lacked the face-to-face contact characteristic of community organizations such as the PTA. State-level advocacy organizations emerged

as an important force in state politics on a host of new policy issues such as domestic violence, home care, and drug and alcohol prevention and treatment. Some of these new advocacy groups were affiliates of national organizations, while others were state-specific organizations but very interested in national-level policy concerns.

The emergence of these agencies, and the extensive government support of their work, raise complicated questions for public policy and for how we think about civic infrastructure and community. As we have seen, public funds allowed the provision of services that were previously unavailable; indeed, the new voluntary agencies funded by government can be viewed as

The absence of pressure to raise funds from the community meant that these agencies did not need extensive local ties to survive.

a response to the failure of the pre-1960s public and private service network to address social need adequately. These organizations also presented some community members with opportunities for employment and volunteer service on boards of directors. On the other hand, most of these organizations were professional agencies with volunteers in support functions rather than direct service roles. The absence of pressure to raise funds from the community meant that these agencies did not need extensive local ties to survive; their capacity to build wide social networks of volunteer and funding support was limited by their orientation toward government. Once established, these agencies also tended to fight to protect their service niche rather than to engage in creating ongoing networks of cooperation among public and private service agencies.

A Change in Direction

The growth of federal social spending halted in the late 1970s as many scholars and politicians started to question the direction of the welfare state in the United States and other advanced industrial countries. The high inflation and unemployment of the late 1970s created profound doubt about the future of the world economy and inevitably focused attention on government expenditures as a possible cause of the economic troubles of countries in North America and Europe.

Worries about the American welfare state contributed to Ronald Reagan's victory in 1980 and gave him the opportunity to win passage of the Omnibus Reconciliation Act (OBRA) of 1981, which inaugurated the first major wave of devolution of federal policy.

OBRA reduced federal spending for social programs, deregulated many federal grant programs, and consolidated many categorical federal social and health programs into block grants. In the ensuing years, federal spending for many social programs such as housing declined. On the other hand, federal health care spending escalated sharply, and during the 1980s and 1990s, new funding was appropriated for an array of programs, including drug and alcohol treatment, Head Start, foster care, and AIDS services.

The number of nonprofit organizations continued to rise despite devolution and federal cutbacks. The reasons are varied: after initial federal cutbacks, state and local governments substituted for lost federal revenue; nonprofit organizations generated alternative revenue through fund-raising, higher fees, and entrepreneurial activities such as real estate development and partnerships with for-profit organizations; and many agencies "absorbed" the cuts through lower salaries, longer queues for service, and fewer personnel.

Although definitive statistics are unavailable, the record suggests that changes in federal policy did not lead to a substitution of volunteers or private donations for paid professional staff and government funds. Many nonprofit service agencies were primarily professional organizations where volunteers cannot easily substitute for paid staff, and so agencies suffering cutbacks often eliminated services or imposed higher fees

Agencies suffering cutbacks often eliminated services or imposed higher fees rather than increasing their reliance on volunteers.

rather than increasing their reliance on volunteers. Private giving to support day-to-day operations was often difficult to generate, since many foundations prefer to provide grants for capital improvements or seed money for new programs. On the other hand, the restructuring of federal policy did not represent severe retrenchment; instead, it was a mixture of selected cuts combined with new spending.

Paradoxically, the selected cuts in the public sector—and the concomitant demand for greater accountability for the expenditure of public funds—created many new opportunities for nonprofits, even as they imposed certain constraints and hard choices. States closed public facilities and transferred responsibilities to nonprofit agencies. Some states shifted management responsibility for services such as child welfare and mental health to third-party, nonprofit (and, in some cases, for-profit) management organizations. Government at all levels also responded to emergent public problems such as hunger, homelessness, and AIDS primarily through

nonprofit service providers funded by the state. As in the postwar era, many of the new organizations provided services which did not previously exist. Meanwhile, the political ferment surrounding the Reagan cuts and his devolution policies prompted many groups to organize and petition the state. Some

As in the postwar era, many of the new organizations provided services which did not previously exist.

of these organizations wanted direct funding, but many were issue- or cause-related and simply wanted to influence government policy. Overall, the competition for public and private funds increased sharply, since the number of nonprofits outstripped available resources.

The scarcity of public and private charitable funds has encouraged nonprofit service organizations to tap fees and commercial activities—affinity cards and for-profit subsidiaries—as a source of revenue. Nonprofit housing developers such as community development corporations cobble together funding from many sources—bank loans, tax credits for investors, local government bond money, and private donations—to build low-income housing. Nonprofit hospitals operate for-profit home care agencies. Museums rely upon gift shops and blockbuster shows to generate revenue and memberships. The ability of nonprofits to tap new sources of public and private revenue is a major reason for the continued escalation in the number of tax-exempt, charitable 501(c)(3) organizations—from 322,000 in 1982 to 546,000 in 1992.

The impact of the ongoing restructuring of nonprofit service agencies on local civic infrastructure remains unclear. Many of these agencies perform a professional service role that cannot easily be assumed by community members without adequate training or background. Some nonprofits are reaching out to new community constituencies and striving to create new networks of political and social support. Mergers and consolidations appear to be more common. Nonetheless, many nonprofits remain focused on their own service niche and resist entering into cooperative arrangements with other service providers. The increased competition for public and private funds can discourage active cooperation among agencies.

The unanswered question for the future concerns the effects on the nonprofit sector of the current wave of devolution, as reflected in the 1996 welfare reform legislation, funding cutbacks, and the pending proposals for a shift in federal housing and health policy to the states. These current and proposed policies are sub-

stantively different from the changes in federal policy in the 1980s: the cutbacks are more extensive; state and local governments have greater discretion in spending money; and for-profit organizations are likely to compete aggressively with nonprofit service organizations for public funds. Consequently, many nonprofit service organizations which successively weathered the 1980s and 1990s may find themselves severely pressed financially, with many closures and mergers possible.

Nonprofits and Public Policy

The complex interplay between the nonprofit and public sectors in the postwar era presents several lessons for social scientists and policymakers. First, the prevailing view of America's "exceptionalism" with respect to its reliance on private associations needs to be rethought. The extensive direct and indirect government support for nonprofit organizations suggests that America's distinctiveness in the postwar period may lie in its use of nonprofits as a policy tool to achieve public purposes.

Second, the effects of public funding on nonprofits are not entirely positive. Government can undermine nonprofits through inappropriate regulations, funding delays and cutbacks, and political opposition. These problems can sap staff and volunteer enthusiasm, contribute to turnover, and destabilize agencies facing ser-

Some nonprofits are reaching out to new community constituencies and striving to create new networks of social and political support.

vice cuts and disruptions. And, as we have seen, reliance on public funding can encourage nonprofits to focus their attention on government rather than on the community around them.

The remedy for these problems, however, is not to curtail federal funding and place all our hopes in local communities, but instead to devise innovations in public and nonprofit management. To the extent that we are guided by a substitution paradigm—less government, more private activity and voluntarism—we risk overstating the capacity of local communities to respond to social need in the absence of government support.

To be sure, nonprofits can emerge in response to government failure. Recent faith-based grassroots programs to address poverty and unemployment are good examples. But these programs are quickly overwhelmed if they are forced to confront an array of social needs without government help in the areas of income maintenance, transportation, and health care,

even if this help is indirect. These programs also depend for their success on diverse public and private service options that allow the matching of individuals to appropriate programs. This array of services needs ongoing public support.

In an age of devolution, the challenge is to craft a new balance between private and public responsibility. The first task for policymakers is to design government policies which allow government to maintain accountability for the expenditure of public funds by nonprofit organizations without undermining their stability. Recent developments in performance evaluation, for example, have shown promise as strategies to measure service outcomes in nonprofit service agencies while encouraging flexibility, innovation, and efficiency. In addition, more research and evaluation must be undertaken to clarify under what circumstances collaboration and cooperation among nonprofits or between public, nonprofit, and for-profit organizations is beneficial for local communities.

Many public initiatives to support the development of civic infrastructure will have to be undertaken by state and local government. State government should be cognizant of the need to help support the fiscal capacities of local and regional government: Without an adequate resource base, municipal policymakers will be unable to provide effective assistance to nonprofit associations in their community. State governments should also nurture and support the growth of statewide and regional associations representing nonprofit groups. These associations can be a source of crucial technical assistance and support for local associations, enhancing their ability to foster voluntarism and supportive social networks in the community. Statewide associations can also help with leadership development.

Even grassroots organizations staffed primarily by volunteers rely either directly or indirectly on government for their long-term sustainability. Neighborhood crime-watch groups need a police department that can respond to their concerns. PTA chapters will falter if the public schools are broke and the education wanting. Absent a vital public sector, voluntarism will not flourish.

Finally, the postwar expansion and evolution of voluntary associations demonstrates the complexity of community and ways to build or rebuild community.

If we as a society are committed to creating a more vibrant and healthy civic infrastructure, we need to examine ways in which local voluntary associations—from social service agencies to unions to churches—can become more connected to their communities, broadly defined. This challenging task will require new approaches by voluntary associations to governance, membership and community support.

Many voluntary associations are in the midst of experimenting with such approaches across the country. As we learn more about these strategies, we can begin to provide greater guidance and support to voluntary associations and the citizenry in building local civic infrastructure.

—Steven Rathgeb Smith

Steven Rathgeb Smith, associate professor in the Graduate School of Public Affairs at the University of Washington, is the co-author (with Michael Lipsky) of *Nonprofits for Hire: The Welfare State in the Age of Contracting* (Harvard University Press, 1993) and editor of the *Nonprofit and Volunteer Sector Quarterly*. Sources: Robert Putnam, "Bowling Alone: America's Declining Social Capital," *Journal of Democracy*, vol. 6 (1995); Peter Berger and Richard John Neuhaus, *To Empower People: The Role of Mediating Structures in Public Policy* (American Enterprise Institute, 1977); Martin Rein and Lee Rainwater, "The Public/Private Mix," in *Public/Private Interplay in Social Protection: A Comparative Study*, edited by Martin Rein and Lee Rainwater (M.E. Sharpe, 1986); A. K. Bixby, "Public Social Welfare Expenditures, Fiscal Year 1992," *Social Security Bulletin*, vol. 58, no. 2 (Summer 1995); Ruth Margaret Werner, *Public Financing of Voluntary Agency Foster Care: 1975 Compared with 1957* (Child Welfare League of America, 1976); Erving Goffman, *Asylums* (Anchor Books, 1961); R. Cloward and I. Epstein, "Private Social Welfare's Disengagement from the Poor: The Case of Family Adjustment Agencies," in *Social Welfare Institutions: A Sociological Reader*, edited by Mayer N. Zald (John Wiley and Sons, 1965); A. J. Kahn, "The Social Scene and the Planning of Services for Children," *Social Work*, vol. 7, no. 3 (1962); M. F. Gutowski and J. J. Koschel, "Social Services," in *The Reagan Experiment*, edited by John L. Palmer and Isabel V. Sawhill (Urban Institute Press, 1984); R. Lifset, "Cash Cows or Sacred Cows: The Politics of the Commercialization Movement," in *The Future of the Nonprofit Sector*, edited by Virginia Hodgkinson, et al. (Jossey-Bass, 1989); *Nonprofit Almanac: 1995-96* (Independent Sector, 1996); Julian Wolpert, "Delusions of Charity," *American Prospect*, no. 23 (Fall 1995).