Public-private partnerships in the United States: Historical patterns and current trends

Lynne Moulton and Helmut K Anheier

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Abstract

The growth and development of the United States' non-profit sector in its service and civil society capacities could not have taken the course it did by relying solely on private voluntary contributions. Within the US non-profit sector, there few large "pure" non-profit service providers that rely solely on private donations. However, public-private partnerships are the *modus vivendi* of America's contemporary non-profit sector largely because public-private partnerships are a basic characteristic of American politics and social welfare system—not by design but by happenstance. At the turn of the century, however, we are witnessing an emerging trend that could lead to major changes in public-private partnerships. As we discuss in this paper, blurring sectoral boundaries have become more frequent, and the role of for-profit firms has become more pronounced. While it is difficult to gauge what the end result of these developments might be, it is safe to assume that more complex forms of partnerships will evolve. Future policy scenarios will increasingly include various combinations among government, business and non-profit providers. What is more, the three-way partnerships of the future will involve organisations no longer strictly bound by their legal form or sector membership. Organisational form may become more project-specific rather than a constant as was the case in the past.

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About the authors

The authors are Lynne Moulton, PhD candidate, Department of Sociology, Rutgers University, and Helmut Anheier, Director, Centre for Civil Society, London School of Economics and Political Science.

Lynne Moulton: Email: Lmoulton@eden.rutgers.edu; Tel: +1 732 445 4014; Fax: +1 732 445 0974
Helmut K Anheier: Email: H.Anheier@lse.ac.uk; Tel: +44 (0)20 7955 7360; Fax: +44 (0)20 7955 6039

Correspondence should be addressed to Dr Helmut K Anheier, Centre for Civil Society, LSE, Houghton Street, London WC2A 2AE, United Kingdom.

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1 Introduction

In the United States, the non-profit sector has consistently relied on federal, state, and local governments for a significant proportion of its funds and clients since the 1960s. Smith and Lipsky (1993) report that government financing often accounts for over half the income of non-profit social service agencies and that there are hundreds of contractual arrangements between public and private non-profit entities in any given state of the union. These arrangements reflect the unique type of welfare state operating through the political economy of the United States.

Voluntary free association among citizens preceded the development of the government apparatus and the corporation as means for pursuing collective action in the United States (Salamon 1998; Smith and Lipsky, 1993). Throughout the history of this country, registered and unregistered non-profit organisations assumed a variety of roles addressing public needs defined outside the scope of either the state or private enterprise. Along with their fundamental role as service providers, non-profits offer a complement to the formal political system as the organisational sphere through which citizens can participate in the democratic process. For example, non-profit organisations account for half of the country's hospitals, colleges, and universities; 60 per cent of the social service agencies; and most of the civic organisations (Salamon, 1998). In addition, every social movement and effort to defend citizens' rights can trace its roots back to the non-profit sector (Melendez, 1998).

The growth and development of the non-profit sector in its service and civil society capacities could not have taken the course it did by relying solely on private voluntary contributions. Need consistently outweighs levels of private donations to non-profit organisations. In many other industrialised countries, this situation often inspired the development of expansive public social service apparatuses. The United States, however, has been historically loathe—from both liberal and conservative perspectives—to rely solely on centralised government structures for the provision of public goods and turned instead to the private non-profit sector.

Direct government support of non-profit organisations comes in the form of direct payments, tax exemption, preferential regulatory treatment, and deductibility of donations. Non-profits also benefit indirectly from payments through subsidies to individual clients. The public-private partnerships, which result from this array of support mechanisms and allow the non-profit sector to assume the roles at the scale described above, are the focus of this chapter.

Public-private partnerships generally take the form of purchase-of-services contracts, where government entities buy services from non-profit contracting agencies. Programs that rely on contracting often require contractors to be non-profit entities. These contracts are characterised by relatively short funding cycles where the government funder enjoys varying control over admission criteria, service delivery, and discharge decisions for clients of the contracted services. Smith and Lipsky (1993) refer to this partnership configuration as a "contracting regime" in which public and private agencies are involved in a mutually dependent but not equal relationship. These contractual arrangements typically subordinate non-profit agencies to a hegemonic state that often seem to serve as more of a sponsor than a partner to their non-profit contractors (Smith and Lipsky 1993, pp. 44–45).

American culture, like those of other countries, contains certain classic polarities, "inner tensions" and contradictions. In the United States, one such tension involves the deeply seated notions of American individualism and self-reliance on the one hand, and commitments to community, formal equality, justice and civic virtues on the other (Bellah, 1985). Within this cultural context, American political economy takes place. It is, first of all, a political economy capable of enacting policies that have become landmarks of modern legislative history that reach over much of the 20th century—from the New Deal programs of the 1930s, the GI Bill in the late 1940s, the civil rights legislation and the Great Society programs over the next two decades, to affirmative action policies, and the welfare reform of the Clinton Administration in the 1990s.

All these policies represent bold moves to address what are perceived as pressing social, economic and political problems and issues: unemployed people, soldiers returning home, war widows left without sufficient income, elderly people, African Americans, and the ongoing policy debate about the deserving and the undeserving poor. They are demand-driven policies (Skocpol, 1992; Amenta, 1988), that neither represent nor amount to a systematic and comprehensive approach to address social problems. Particular groups with specific agendas can exert considerable influence on American policies, if political constellations accommodate them and their demands meet the political needs of other stakeholders (Laumann and Knoke, 1987). The war widows of Word War I and II pressed for social security and found a government both sympathetic and politically open, and hence amenable to bold initiatives. The civil rights movement pressed for affirmative action and equal opportunities, and met a government willing to take on their demands, at least in part.

The result of demand-driven policies is, as many observers of the US welfare state have noted (Amenta, 1988), a patchwork approach to social policy, and an approach altogether distinct in style and aspiration from the European model. This contrast applies not only to social democracy and Christian democratic ideas of policy-making, but also to large-scale programs like the National Health Service in Britain. None of these approaches fit the American style of policy-making.

What, then, is the US model? We have already noted the demand-driven aspect of it, and the patch-work character of the overall result. These characteristics are made possible by an electorate that can be seen as reconciling three value streams (Lipset, 1996):

- Individual freedom, formal equality before the law, and due process;
- High levels of tolerance for significant disparities in material wealth and well-being combined with a believe in individual advancement and responsibility (the "American Dream"), and
- A "taken-for-grantedness" that the US style of government is the best blue-print for the political constitution of society and system of government that requires only "fine-tuning," never major "overhauls" to maintain and perfect it.

The overall result is a small government at local, state and federal levels by international standards. What is more, it is both a strong and a weak form of government. It is strong because of its secure moorings in a democratic tradition and process more than 200 years old, and the deeply embedded democratic ideals in the population. By contrast, the government is weak because it can actually do very little on its own without involving third parties as partners. Limited financial resources and lack of popular support help prevent all levels of government, and particularly the Federal level, to assume any exclusive role of service provider in many fields that are the prominent domain of the state in most other countries: culture, education, health, social services, community development, environmental protection, international development, to mention a few.

Frequently, government is only in a position to finance some of the major parts of policy implementation. Rarely, however, can Federal and state governments actually offer the services themselves by building up a network of institutions dedicated for such purposes. The result is a system of what Salamon (1995) called third party government—an emerging model whereby governments at all levels involve private organisations in delivering public services. Typically, these partner organisations are non-profit entities, and, as we will see below, increasingly business corporations.

Thus, the US government works closely with the non-profit sector to address a variety of social problems (Salamon, 1995). Whereas common notions of welfare states assume that welfare provision corresponds to the size of the public social service apparatus (Quadagno, 1987), the American version of the welfare state consists of a public sector that makes policy, generates tax revenue, and hires private non-profit and for-profit agencies to manage and deliver goods and services.

Within the US non-profit sector, there are few large “pure” non-profit service providers that rely solely on private donations. “Contrary to the common view, non-profits are far from independent of private enterprise and government. They compete and collaborate with these other organisations in countless ways in their efforts to finance themselves, to find workers, managers, and other resources to produce their outputs, and to develop markets for those outputs” (Weisbrod 1998, p. 4). This partnership arrangement reflects the rugged individual vs. community member dichotomy of American culture, the pluralistic tenets of the political structure, and “represents a pragmatic, piecemeal adaptation to prevailing realities that emerged in ad hoc fashion in different fields (Salamon and Anheier 1998, p. 158). In summary, public-private partnerships are a basic characteristic of American politics and social welfare system—not by design but by default in the absence of any co-ordinated social welfare regime. Public-private partnership is also the *modus vivendi* of America’s contemporary non-profit sector.

2 Theoretical background

Many theories of the non-profit sector argue that public collaboration with non-profit agencies also represents a division of labour in the provision of collective goods, co-ordinating the relative strengths and weaknesses of each sector. These theories describe the relationship between government and the non-profit sector as complementary and symbiotic. The third party government theory (Salamon, 1987), for example, conceives of the non-profit sector as the preferred mechanism for the provision of public goods. From this perspective, solving new and expanding social and economic problems is most appropriately and effectively accomplished on a voluntary bottom-up basis (Lipsky and Smith, 1989–90). Government is the secondary institution that steps in when the voluntary sector “fails”. Reliance on the non-profit sector for performance of various government functions, in turn, allows the US government to promote general welfare without expanding its administrative apparatus (Salamon, 1987).

The public goods theory, on the other hand, reverses the logic of the third party government theory. From this perspective, the government, whose responsibility it is to produce public goods, fails to finance goods and services that meet the needs of the entire population, particularly in heterogeneous societies with a diversity of needs. The non-profit sector exists to satisfy demands for collective products and services left un-funded by the government (Weisbrod, 1988). While the logic of the third party government theory and the public goods theory make different assumptions about how government and non-profits come to be mutually dependent, both see such co-ordination as optimal within modern industrialised economies.

The assumption among many scholars of the non-profit sector is that non-profit organisations offer the state a flexible, localised way to respond to emerging or entrenched social and economic problems. These organisations are more able than government bureaucracies to be both responsive to shifting public needs and to establish long-term service relationships with clients. Government agencies can rely on existing, often community-based, organisations to manage and deliver specialised goods and services that would be costly for them to establish and maintain. In doing so, the government also shifts the financial and political risks of collective good provision to the non-profit sector. In turn, non-profits receive reliable streams of funding and clients, tax exemption, and preferential regulatory treatment from public sources.

Much recent research on the mutual dependence between the public and private non-profit spheres shows that this partnering is not always straightforward and uncomplicated (see Lipsky and Smith, 1998-90; Smith and Lipsky, 1993). The prevailing concern in recent work is how government funding impacts upon the scope and direction of its non-profit recipients. Non-profit experts ask if government support affects management decisions in ways that pull non-profit organisations away from their missions (Weisbrod, 1998; Lipsky and Smith, 1989–90). Some scholars wonder if the comparative benefits of non-profit service provision over for-profit provision warrants continued government political and financial protection (Bloche, 1998; Schlesinger et al, 1996). Still others worry about the impact on the sector of the recent and simultaneous trends of government retrenchment on social welfare spending, for-profit encroachment into traditionally non-profit industries, and the subsequent commercialisation of the non-profit sector (Ryan, 1999; Salamon, 1999; Weisbrod, 1998).

In the balance of this paper, we will explore these and other issues related to the coupling of the public and non-profit sector in the United States political economy.

3 Extent of the public-private partnership

The mutual dependence between the public and private sectors was established in large part during the Great Society days of the 1960s and 1970s with much of the sector's growth happened during that period and has held ground since then. Non-profit organisations received over 50 per cent of federal social service expenditures in 1989, up from almost nothing in 1960 (Lipsky and Smith, 1989–90). Some small organisations rely on government funds for their entire budgets (Lipsky and Smith 1989–90). In fact, public money is so important to the on-going financial stability of non-profit social service agencies, that non-profit coalitions, advocacy groups, and "affinity groups" now exist, whose partial or sole mission is to lobby the government for increased government spending for a variety of their social and economic welfare causes from youth services to care for older people (Oliver, 1999).

While government support of the non-profit sector continues to grow—albeit at a slower pace and mostly in the health care industry—recent policy-making trends have begun to alter the long-standing public-private partnership arrangement. Beginning with the presidency of Ronald Reagan in 1980, the federal government has pursued an ongoing campaign to both “reduce big government” and “reinvent government”, which are catch phrases for retrenching social program spending and streamlining government bureaucracy.

In keeping with this dual agenda, devolution of responsibility for a wide variety of health and welfare issues has simultaneously changed the structure and reduced the level of government funding for non-profit activities across the board. Over the last two decades, fifty-seven federal grant categories were consolidated into 9 block grants that carried lighter funding for state programs (Coble, 1999). Also as part of this process, funding structures to social service agencies shifted from the reimbursement plans of conventional contracting to performance contracts that emphasise efficiency and capacity (Behn and Kant, 1999; Ryan, 1999).

With this new focus on accountability and performance came a new-found recognition of qualities that for-profit firms could bring to the service provision table. Throughout the past decade, public funders at all levels of government began relaxing their historical resistance to contracting with for-profit organisations to manage and deliver social welfare services. The consequences of this trend for the non-profit sector is an increasing level of competition for government contracts and the encroachment of for-profit firms in social service industries that had been traditionally non-profit domains. As government spending shrinks and competition from for-profit providers increases, non-profit organisation must find alternative funding sources. Increasingly, the non-profit sector has come to rely more heavily on commercial income, which accounted for over half of the sector’s revenue growth from 1977–1996 (Salamon, 1999, pp. 70–71).

4 Consequences of public support

According to the non-profit literature, the consequences arising from the mutual dependence of the public and private sector are twofold. One set of consequences involves non-profit sector changes—potential and actual—due to reliance on public funds in general. For example, some scholars argue that fundamental differences in priorities between the public and private sectors create myriad opportunities for conflict, the underlying assumption being that non-profits will tend to adjust their behaviours to satisfy the agendas of their public funders. To whatever extent government agendas differ from those of the non-profit organisations seeking funding, non-profits are at risk of having to stray from their intended missions to attract and keep public funding. In fact, Lipsky and Smith caution that “government contracting may alter non-profit agencies’ approaches to services and clients, even if their goals are entirely compatible with those of government. In essence, they may be forced to conform to standards imposed by contracting policy at the expense of their home-grown notions of what constitutes effective service delivery” (1989–90, p. 638, emphasis ours). In particular, non-profit scholars worry that non-profit organisations will become too bureaucratised, over-professionalised, and politicised as a result of governmental influence. Non-profits might also lose their autonomy and flexibility regarding a number of organisational goals and succumb to “vendorism,” where the organisational mission is distorted in the pursuit for government support (Salamon, 1987).

Another set of consequences of public-private partnerships concerns the impact of for-profit encroachment into non-profit fields of operation and the accompanying emphasis on efficiency and capacity within government contracting. To both compete and compensate for shrinking federal dollars, non-profit firms are becoming increasingly commercialised with moves into sales and investment. The extent of this commercialism within the non-profit sector varies considerably by industry (see Weisbrod, 1998, table 1.2, p. 17). Nonetheless, non-profits in a variety of industries are engaged in selling theme license plates, opening health clubs and off-site museum stores, leasing mailing lists, sponsoring conferences, publishing journals, loaning their logos, licensing and patenting discoveries, among many other fee generating income strategies (Anheier and Toepler, 1998; Cain and Merritt, Jr, 1998; Powell and Owen-Smith, 1998; Weisbrod, 1998; Young, 1998). In addition to commercial outputs, non-profits are commercialising in terms of the labour market as well. As Ayres-Williams writes, “the sector can now afford to be an employer of choice. Gone is the image of do-gooders working inefficiently and at pittance wages for the sheer pleasure of helping others. The reality of operating with multimillion dollar budgets has led most non-profits to adopt a more focused business approach” (1998, p. 110). With commercial activity representing the largest proportion of income growth for non-profits across the board, the question remains whether and to what extent non-profit commercialism affects both public-private partnerships and the character of the non-profit sector as a whole.

4.1 Business-like non-profits

As non-profits increasingly embark on commercial activities and as government funders place more weight on performance and capacity measures in contracting relationships, the argument that non-profit organisations are the most effective mechanisms for managing and delivering public goods is called into question. The prevailing concern is that non-profit response to increasing competition will be to adopt more business-like management strategies that compromise the social benefits non-profit organisations contribute in a variety of industries. The health care field, for example, has seen dramatic growth in commercialisation, mergers, and conversions to for-profit status among non-profit hospitals and other non-profit health care organisations. The aftermath of these transformations provides an opportunity to evaluate the continuing role of the non-profit sector in health care provision.

One concern is how these transformations affect hospital pricing. Most economic models of non-profit hospital pricing assume that non-profit hospitals depart from profit-maximising production choices because they tend to spend their profit in ways that meet objectives that match their organisational mission to provide care, education, and improve quality. Melnick et al (1999) argue, however, that non-profits are nearly as likely as for-profit hospitals to meet their organisational objectives by raising prices, especially in a concentrated health care market increasingly dominated by managed care. In their econometric model of hospital pricing, they also found that expected price increases depended on ownership and market share of merging hospitals. Although merging for-profit hospitals are more likely than merging non-profit hospitals to use their increased market share to raise prices, merging non-profit hospitals are likely to raise prices after mergers, just at a slightly smaller rate than among for-profit hospitals. Such findings indicate that non-profit behaviour is not unchanged by increasing competition with for-profit firms. The extent to which ownership status and commercialisation affect public-private partnerships is an empirical question that warrants exploration as conversion and commercialisation trends increase in the health care field and beyond.

Some scholars now speculate about the justification of continued preferential treatment of non-profit organisations from the government. Again from the health care field, Bloche (1999) argues that the “putative social advantages” of the non-profit form over for-profit ownership status in health care financing are uncertain and do not compensate for the costs of government protection. He claims that non-profit health care facilities are no more likely to provide free care to the poor than for-profits and vary in their production of other social benefits, such as research and health care promotion. Therefore, according to Bloche, these uneven social benefits do not mitigate direct and indirect economic costs to the government enough to warrant continued protection of the non-profit category of health care organisations. This perspective contends that the government should pull even farther away from non-profit sector and allow a more free market approach to social service delivery.

Another perspective on government support of non-profits holds more to the notion that the public-non-profit relationship has been and should remain mutually dependent. Melnick et al (1999), for example, suggest that changing organisational behaviour within the non-profit sector actually warrants closer attention to the sector in terms of regulation. They argue that non-profit organisations respond to regulatory pressures better than for-profit firms. So by retaining their close relationships with the non-profit sector, government funders are still in a good position to control the output of collective goods from the non-profit sector (Lipsky and Smith, 1989–90). This leverage may be especially distinct within periods of constricted government spending where there is increased competition for less funding.

Schlesinger et al (1996) extend this argument by suggesting a regulatory division of labour within the government for the non-profit sector. They maintain that the Internal Revenue Service should define the parameters of the potential community benefit of the non-profit sector and define these benefits broadly enough to capture all possible dimensions of non-profit contributions. According to their scheme, other policy makers should then be left to prioritise these benefits because they have “a better understanding of trade-offs among competing goals for public action and who are more responsive to contemporary public concerns” (p. 738). This perspective recognises the political nature of service provision and government contracting, arguing that the government needs to do more than provide funding to assure that collective goods provision meets demand.

Still other scholars find that non-profit organisations do still behave in traditionally beneficial ways, justifying continued government support of the non-profit form. Ryan (1999) argues that non-profits generally spend surplus on mission-related activities, promote civic virtues, and advocate for the publics they serve. Weisbrod writes that these other findings of “differential organisation behaviour suggest, but do not necessarily prove, that when financial constraints allow, non-profits do behave in a fundamentally different manner from for-profit organizations” (1999, p. 12). This argument maintains that these behavioural differences between non-profit and for-profit organisations should give the non-profit form a comparative advantage in the competition for public funds.

Ryan (1999) cautions that the community benefits non-profits do offer are threatened by for-profit encroachment. When competition drives prices down, non-profits are likely to be left with less surplus revenue to spend on mission-related activities. In addition, competition with for-profits for government contracts may divide the client pools. For-profits will likely seek those clients who are easiest to serve, leaving harder, more expensive cases to non-profit providers. This perspective suggests that continued or even increased government support of the non-profit sector is crucial to preserve the collective benefits that non-profit organisations provide.

Another danger surrounding these new patterns is that non-profit organisations might succumb to “institutional cusp pressures” and become more for-profit-like as boundaries between the non-profit sector and the for-profit sector continue to blur (Alexander, 1998, p. 275). Non-profit scholars and advocates worry that non-profit entities will take the “if you can’t beat them, join them” response too much to heart, at the expense of their intended missions.

5 New contracting patterns

Government funds still play an important role in the financial stability of non-profit organisations across industries, but this role has changed to accommodate for-profit entrance into traditionally non-profit service areas and the resulting collaboration between sectors. More and more, public money becomes a linchpin for non-profit partnerships with for-profit entities. Non-profit organisations increasingly find that they must team up with for profit firms to compete for larger, consolidated funding streams. This trend is partially the result of push factors from the government. Social spending retrenchment, emphasis on accountability in contracting relationships, devolution of social welfare responsibility to states and local governments, and the dismantling of many New Deal/Great Society welfare programs have disrupted long-standing partnerships between government agencies and non-profit social service providers.

For example, YWCA of greater Milwaukee recently faced a 40 per cent revenue reduction as the Wisconsin legislature consolidated existing social service programs to develop an aggressive welfare reform package. On their own, YWCA did not have the resources to make a competitive bid for the new $40 million welfare-to-work contract. Their response was to seek out a partnership with two for-profit firms to build the scale and managerial capacity to win the contract. The newly formed YW Works now provides almost every service that welfare recipients need in finding a job (Ryan, 1999).

Other cases of non-profit partnerships with for-profit firms demonstrate how public money can help give non-profit organisations leverage with local business leaders, inspiring a variety of collaborative efforts in service delivery. For example, seven states have developed trust funds for affordable housing, ranging from $10–50 million. These funds are awarded to local community developers to build and manage low and moderate-income housing. The Rio Tower project, a housing facility for elderly poor, in the Little Havana district of Miami was built with Florida's trust fund money. The non-profit East Havana Community Development Corporation built and now manages the facility. Non-profit housing coalitions in various states have been able to use the local infusion of trust fund money to leverage additional revenue from local realtors and homebuilders in the form of real estate transfer fees (Wayne, 1998).

The US credit industry offers another example of how new welfare policy initiatives, government funds, and regulation create an environment that fosters public partnerships with non-profit and for-profit organisations in a variety of combinations. In the process of dismantling several public assistance programs, politicians have adopted "hand up, not hand out" rallying slogans in support of new programs that promote self-sufficiency. Some of the most politically popular self-sufficiency-type initiatives are micro-finance programs. Borrowed from similar initiatives implemented throughout the developing world, these programs are designed to provide credit and financial training to low-income entrepreneurs and homebuyers (Edgcomb, Klein and Clark, 1996). As this strategy became popularised among US policy-makers and public funds became available for such programs, hundreds of new and existing non-profit community and economic development organisations have started revolving loan funds and other types of local lending programs.

Micro-finance programs suit the needs of the government, business, and non-profit sectors through the three-way formal and informal partnerships they inspire among the three sectors. Politicians have an interest in providing funds for such initiatives so they can fulfil social welfare objectives that begin to compensate for retrenchment of other public assistance programs. However, in keeping with the trend of reducing government, they do not want to administer these lending programs. Instead, they rely heavily on for-profit and non-profit partnerships to develop and manage these initiatives at the local level. For profits, particularly banks, participate in these micro-finance initiatives to boost their public image, meet regulatory demands for local investment, and tap federal funding streams.1 Community and economic development organisations take advantage of these federal dollars so they can continue to provide investment capital in their service areas in spite of cuts in other federal programs. Still, these credit programs are rarely self-sufficient in spite of expanded public funding in the past ten years. As a result, such programs often co-ordinate with local banks and businesses for additional funding, technical assistance provision, and client referrals. These non-profit lenders also maintain relationships with local banks so they may refer clients back to the banks when the clients' needs grow beyond micro-finance lending caps (Moulton, 2000).

Through these micro finance initiatives, millions of federal dollars filters from the US Department of Housing and Urban Development (HUD) and the Small Business Administration (SBA) down through variable structures of local governments, for-profit, and non-profit organisations to individual borrowers. These sectors form partnerships in various ways to disburse these funds and pool financial and technical resources. For example, the SBA and HUD Program for Investments in Microentrepreneurs (PRIME) funnels federal dollars to private for-profit venture capital and other investment companies for investment in local small business initiatives (White House Fact Sheet, 5 February 1999; SBA Press Release, 15 January 1999). These investment coalitions often co-ordinate with local banks for additional funds and technical expertise and with non-profit agencies for their existing network access to the targeted areas and populations and for their service expertise.

5.1 New kind of mutual dependency?

A simultaneous and important trend in public-private sector relationships in social welfare services is the government's reversal of its historically hostile stance toward for-profit firms. For-profit firms have been bidding for and getting government contracts to manage social welfare programs since 1996 in the wake of massive welfare reform initiatives. While the move of for-profit firms into this traditionally non-profit turf was initially dismissed as "poverty profiteering", for-profit firms are now

[1] Through the Community Reinvestment Act of 1977 and its supporting legislation, the federal government requires banks to provide credit and banking services in all areas where they are chartered to do business. Such legislation is designed to promote social investment by banks to combat their long-standing patterns of discrimination in many credit markets throughout the United

managing dozens of new multi-million dollar welfare-to-work programs nation-wide (Ryan, 1999). Outsourcing to for-profit firms has been an answer to politicians' desire to unload management responsibilities of large scale social welfare programs. Driving the increasing reliance on for-profit firms is the assumption that for-profits are more experienced at managing complex systems than non-profit organisations. Not only do for-profit firms generally have better management information systems, but they also tend to have more collateral to guard against contract failure than most non-profits. So, for-profit firms are the logical outsourcing choice for legislators intent on transforming old bureaucratic social welfare regimes into what they hope are more efficient relationships based on accountability.

Instead of shutting non-profit service providers out of the market, though, for-profit encroachment has actually inspired a new kind of mutual dependency among for-profit firms and non-profit organisations. In this new scheme, the government contracts out with for-profit firms for management of social programs and for-profits then contract with non-profit organisations for service provision. For-profit firms may have the technical expertise and organisational capacity to manage large-scale delivery systems, but they often lack local access and specialised service provision expertise. So, for-profit firms come to rely on non-profit organisations to help them fulfil their contracts at the provision end of the delivery system. For-profits become the middleman entity between government purchasers and non-profit providers.

6 Lasting changes

There is not much doubt that non-profits can survive in this new competitive climate for two important reasons. First and as we describe above, non-profit commercial activities tend to be innovative and profitable. Second, non-profit response to external pressures from the for-profit sector increasingly involves some degree of co-ordination and collaboration among the public, non-profit, and for-profit sectors. In fact, the cross-sector collaboration strategy is a proxy for innovation, growth, and success in self-reflective discussion about the future of the civil society in the United States (Independent Sector, 2000; Fosler, 2000a; Fosler, 2000b). Leaders in all three economic sectors agree that social, political, and economic forces are bringing the three sectors together more than they have in the past. In fact, recent discourse among leaders in these sectors suggests that the US is experiencing the death of an old civil society and the birth of a new civil society.

The old civil society was characterised by large federal spending for social programs, heavy regulation of an industrial economy, and a service and advocacy-oriented non-profit sector. The new civil society is largely a response to the changing nature of the economy, rather than a change in the

States (For further discussion see Squires 1992).

fundamental needs of the American population. As economic relationships globalise, local-global divides collapse, and information technology grows and develops exponentially, the three economic sectors struggle to keep pace with such rapid and wide-ranging change. The result is an increasingly more streamlined government engaged in massive deregulation and devolution of control to localities. Politicians and policy-makers make these moves in their efforts to facilitate the flexibility that the business and non-profit sectors need to compete in a new global economy where change and innovation occur at lightning speed. Not surprisingly, this shift is consequential for public-private partnerships. These partnerships "look" different now than they did 10 years ago. In fact, they look more like partnerships than they did in the past. In table 1, we summarise some of the old and new patterns affecting public-private relationships.

One result of the shift from old to new patterns a growing consensus that all three sectors share both an interest in and responsibility for the provision of public goods. Government, business and non-profits are more collectively making the types of human investments that promote a well-educated, healthy workforce and a well-informed citizenry. Currently, however, that the public agenda is shared is where the consensus ends. Still in debate are the specific responsibilities and advantages each sector brings to the table.

Another major set of changes is in the structure of the public-private partnerships. Largely as a result of privatisation and other types of devolution, the nature of the relationship has changed from one of top-down decision-making to more consensus-oriented collaborative decision-making. Since the private sector generally leads the public sector in the adoption of new technology and management techniques, the public sector often defers to the expertise of that sector to develop best practises in the provision of public goods. At the same time, the public sector's drive to become more efficient heightens their attention to oversight and accountability. This climate of accountability has also re-oriented private sector organisations from attention to their concrete missions of outreach and service provision to a more abstract focus on capacity-building. The new civil society climate drives non-profit organisations and business firms alike to continually develop and demonstrate their capacity to grow and adapt to the swiftly evolving economy. Again, there is little consensus among practitioners as to what capacity should look like, not surprising considering the diversity and scope of contemporary non-profit and business sectors.

Table 1: Public-private partnership patterns

Characteristics	Old pattern	New pattern
Domain of public goods provision	Government	Government, business and non-profit sector
Sector borders	Solid	Fluid
Managerial focus	Service provision	Capacity-building
Nature of partnership	Delegation	Oversight and accountability
Decision-making	Vertical	Horizontal

7 Conclusion

This paper looked at public-private partnerships in the United States. Co-operation between government and the non-profit sector has a long history in this country, and is, as we have seen, deeply rooted in its ideological and cultural make-up. This system of third party government, however, has neither been stable, nor comprehensive in its coverage over time. Pushed along by major policy initiatives that periodically seemingly revolutionised the substance and practice of government-non-profit relations, public-private partnerships remained a flexible and open system, unaffected by standardisation any more comprehensive policy would bring about.

At the turn of the century, it seems as if we are witnessing the beginnings of an emerging trend that could lead to major changes in public-private partnerships. As we have seen, blurring sectoral boundaries have become more frequent, and the role of for-profit firms has become more pronounced. While it is difficult to gauge what the end result of these developments might be, it is safe to assume that more complex forms of partnerships will evolve. Future policy scenarios will increasingly include various combinations among government, business and non-profit providers. What is more, the three-way partnerships of the future will involve organisations no longer strictly bound by their legal form or sector membership. Organisational form may become more project-specific rather than a constant as was the case in the past.

What is more, project-specific rather than policy-specific partnership will allow more flexibility in developing contract regimes sensitive to local circumstances and challenges. At the same time, such developments make it necessary for local governments in particular not only to improve governance and accountability requirements but to put in place new ones that may be more in line with the complex partnership arrangements of the future. Standard public administration programs and tools will most certainly not measure up to the new contract regimes.

Of course, these policy developments also have theoretical implications. In a sense, they introduce a new twist to the government failure and voluntary failure theories: Are for-profit providers the "missing links" that helps governments overcome policy inertia in dealing with non-profit organisations, and non-profit organisations overcome commercialisation pressures that may threaten their basic raison d'être. In theoretical terms at least, we are moving from partnerships to quasi-markets, or at least to "staged scenarios" where each form brings in its own competitive advantage that supposedly compensates for the disadvantages of others. The outcome of this development is far from clear: will such staged markets sort out the "good" and "bad" for-profit firms; will non-profit organisations be overwhelmed by the temptations of profit motive and compromise their social agendas; and will governments—like the sorcerer's apprentice—be able to master the forces they unleashed?

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