

Introduction

A growing recognition exists among scholars and policymakers in the USA – perhaps even among the general public – that the nonprofit sector is much broader than charities and that charities provide a wide variety of services, not just human services (the latter is what comes to mind for many people when contemplating “charities”). This emerging awareness reflects, at least in part, an explosion of research on or about the sector, employing a great variety of theoretical and empirical approaches.¹ In this Element, we seek to provide some clarity to the daunting complexity and diversity of the nonprofit sector.

We start by noting that the nonprofit sector is a creature of public policies as much as a consequence of voluntary action. Public policies establish the conditions under which this particular organizational form is recognized, and specify the privileges nonprofits enjoy and the regulations to which they are subject. Of course, public policies also determine directly whether nonprofits are eligible to receive funding or other support from governmental bodies, and if so, what form such support will take. Understanding the nature of government–nonprofit relations is therefore a fundamental quest for nonprofit researchers, policy-makers, and practitioners alike. Moreover, public policy can profoundly affect the support and engagement of citizens with nonprofits and their local communities.

This intellectual quest is complicated by the extraordinary range of activities in which nonprofits engage. Indeed, the presence of “field chapters” in key edited volumes (Powell, 1987; Salamon 2002; Powell and Steinberg, 2006; Salamon, 2012; Powell and Bromley, 2020) have drawn attention the notable differences among nonprofits across policy fields, such as health, social assistance, education, arts and culture, religion, environment, and housing. While these “field chapters” are quite useful in describing the varying landscape of the nonprofit sector, they do not directly address the distinctive differences, if any, in the nonprofit–government and other cross-sector relationships in different fields – and more broadly, across institutional settings and regimes (Smith and Grønbjerg, 2006).

In this Element, we seek to advance nonprofit scholarship by applying a new conceptual framework that allows us to systematically examine differences

¹ A search of doctoral dissertations accepted by US institutions of higher education containing keywords with variations on philanthropy, charity, nonprofit, third sector, voluntary sector, civil society, not-for-profit, or independent sector by year shows a growth from about 100 per year in the early 1980s to more than 1,100 in 2015 (more recent years do not appear to be complete). During the same period, the number of English-language peer-reviewed journal articles containing the same keywords has grown from about 250 to more than 6,500 per year (www.proquest.com, accessed August 18, 2019).

across nonprofit fields of activity. At its core, our framework focuses on the structure of relationships among the four sectors: government, nonprofit, market, and informal (or household). We argue that these relationships differ systematically across the fields, most notably in the economic share that each sector holds and in the functional division of labor among the sectors. However, systemic differences also exist in the interaction of the nonprofit sector with government, market, and informal sectors in the different policy fields. Another scholarly advantage of our approach is its utility for cross-national comparative research.

We first provide an overview of the theories of nonprofit–government relations and discuss the conceptual roots of the policy fields approach in our paper. We then apply the framework at the meso-level of policy fields to illustrate how a detailed application of the framework allows for a more systematic understanding of the variation in the government–nonprofit relationship across different fields, as well as variations in how nonprofits relate to the for-profit and informal sectors. For this part of our analysis, we focus on the health, human services, education, arts and culture, and religion fields in the USA.

We then broaden our analysis to the macro-level by highlighting cross-national contexts for the meso-level field framework. We focus first on how the USA compares to selected other societies on key economic and political dimensions, before turning to a broader discussion of how these forces play themselves out under the impact of globalization. The concluding section discusses the implications of the policy fields approach for our theoretical understanding of the government–nonprofit relationship at both the meso and macro levels. We also touch briefly on the practice and policy implications of our framework.

Theories of the Government–Nonprofit Relationship

The scholarship on the government–nonprofit relationship is especially rich and extensive. While the literature is quite diverse, one connecting theme in many of the predominant theories of the nonprofit–government relationship is the view of nonprofits as alternatives to government. Burton Weisbrod (1977), for example, argued that nonprofits emerge to meet the unsatisfied minority demand for public goods, broadly defined. His theory was thus rooted in broader theories of “market failure”: public goods are insufficiently provided in a market setting so government arises to provide public goods such as the military, foreign policy, and lighthouses. However, because voters generally wish to limit the taxes they pay, government resources are also limited and some demands for public goods cannot be met by government. Thus, to Weisbrod,

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nonprofits are established as a consequence of both market failure and government failure. Good examples are Lutheran Social Services or a Laotian immigrant assistance agency.

Hansmann (1980) offered an alternative market failure theory, based upon contract failure. He observes that markets work on the assumption of information exchange among buyers and sellers; ideally, sellers and buyers should have complete information to ensure efficient transactions. He noted, though, that some services are too complex for buyers to easily assess and therefore require some alternative mechanism to overcome the “asymmetric information.” This challenge is particularly acute in philanthropic markets, where donors support services consumed by others. Owners of for-profit firms might exploit the lack of consumer information for personal gain.² Thus, nonprofits emerge to serve as a “solution” to this information problem because their “owners” – the board of the organization – are prohibited from using the organization’s revenue for personal gains. Rather, all such revenue is supposed to be devoted to the organization’s public service mission. Because of the safeguard against personal enurement – the so-called non-distribution constraint – donors can trust nonprofits with their money.

More recently, Ghatak (2020) suggested that the effectiveness of nonprofits is tied to their ability to attract employees who are committed to their cause. Essentially, nonprofits compete with other types of organizations (and among themselves) for employees. Consequently, the mission of a nonprofit and its interpretation by the staff and volunteers is particularly critical for the sustainability and impact of nonprofits. This theory also builds on the work of Young (1986) who observed that nonprofits represent the choice of individuals who are looking for organizations with a social mission, although as Steinberg (2006) argues, that is just one of the potential outcomes for social entrepreneurs.

Salamon (1987) offered yet another perspective on the government–nonprofit relationship based at least in part on market failure. While Weisbrod argued that government is the first sector to provide public goods, Salamon suggested that nonprofits were the initial sector to do so. But the problem is that nonprofits, in their pure form, have great difficulty providing an adequate supply of quality public goods because of structural obstacles, such as insufficient resources and lack of professional staff. Due to these inherent deficiencies, governments intervene through funding and regulation to allow nonprofits to expand their provision of public goods. Importantly, Salamon argued that government funding did not fundamentally affect the autonomy of nonprofits because nonprofits and government were mutually dependent upon each other (see also Kramer, 1983; 1987).

² Government regulation of consumer products may counteract some of these opportunities for exploitation, for example, lemon laws for used cars, mandatory food labeling, or the use of energy ratings for household appliances.

Other scholars are worried about the impact of government funding and regulations on nonprofit organizations. At a general level, scholars such as Robert Nisbet (1953) argued that the trend toward political centralization in contemporary society was undermining local communities. This perspective also finds echoes in the work of conservative scholars such as Frederick Hayek (1944) and Milton Friedman (1962) who were concerned about the growth of the state and its potential impact on individual liberty. This theme is also evident in the writings of Peter Berger and Richard John Neuhaus (1977) who argue that intermediary entities such as nonprofits can be undermined by government, leading to a loss of innovation, effectiveness, and diversity at the local level (see also, Glazer, 1988). More recent expressions of this perspective were apparent in the Bush Administration Faith and Community Based Initiative which channeled government funding to local faith-based nonprofit service agencies. One aspect of this initiative was the effort to offer nonprofits more discretion and autonomy in their staff and program operations than is typically the case for government-funded programs.

Another important perspective on the government–nonprofit relationship is the “regime and neo-institutionalist” perspective (Smith and Grønbjerg, 2006). For instance, Salamon and Anheier (1998) offer a “social origins” perspective on the nonprofit sector where they argue that the role and composition of the nonprofit sector in a particular country is greatly affected by the character of the regime and the historical development of public policy toward the nonprofit sector including regulations and funding. In addition, Smith and Lipsky (1993) concluded that the government–nonprofit relationship could be characterized as a “regime” governed by specific norms, rules, and behavioral expectations. In addition, Marwell and Brown (2020, p. 241) argue that “regulative institutionalization influences the government–nonprofit relationship,” thus different regulative arrangements will produce different roles for nonprofits in regard to public policy and affect the behavior of nonprofit staff and volunteers.

Many other scholars have also noted the importance of government policy to the character of the nonprofit sector (see Grønbjerg, 1993; Najam, 2000; Young, 2000). Indeed, Young (2000) proposed a model of the government–nonprofit relations based upon a four-country comparison that classified this relationship into three categories: complementary, supplementary, and adversarial. In a similar vein, Najam (2000) offered the 4Cs of government–nonprofit relations: cooperation, confrontation, complementarity, and co-optation.

These various perspectives offer rich insights on the government–nonprofit relationship. However, they do not delve into the variation across policy fields. We use the term “policy fields” to highlight the important role that public policy plays in shaping them. However, we recognize the complex etymology of the concept of “field.”

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Three conceptual frameworks related to policy fields are especially relevant and useful. First, Bourdieu argued that a “field” is a network of social relations that creates a social arena with specific logics and beliefs in which agents seek to obtain desirable resources by use of economic, cultural, social, and symbolic power (Wacquant, 2006). Thus, fields would possess their own norms and power dynamics that would profoundly affect the nonprofit–government relationship.

A second perspective is institutional theory. DiMaggio and Powell (1991) suggested that fields are collections of organizations that are subject to a shared set of institutional forces (i.e. coercive, mimetic, and normative). If these forces are particularly strong, the use of rituals and symbolism, rather than actual performance, come to signal legitimacy in the field and hence ability to secure survival.

The third framework is from the work of Stone and Sandfort (2009) who observe that the dynamics of complex policy environments depends on the concentration of authority, the density of networks, and the nature of financial and professional relationships. Their micro-level approach borrows heavily from the concepts of “policy domains,” “policy subsystems,” and policy “regimes” in political science (see also, Sandfort, 2009). Their approach also stresses the importance of prevailing networks and rules that structure the government–nonprofit relationship and the relationship of nonprofits to other community organizations and local citizens.

Our analysis draws on all three of these approaches, although it is most closely aligned with that of Stone and Sandfort (2009). We add an explicit emphasis on cross-sector relationships. For this reason, we necessarily expand our analysis to include not only the government and nonprofit sectors – the primary focus of our analysis – but also the market sector and nonprofit–market sector relationships. We also include observations about the “informal” sector – including households, extended families, friendship groups, self-help groups like AA, and church-assisted programs like soup kitchens, all lacking formal legal incorporation, and other informal networks – and how nonprofits relate to these clusters. Our policy fields framework also emphasizes the variation in the government–nonprofit relationship across substantial substantive policy domains such as health and education. This focus differs from Sandfort and Stone who focus on policy fields and the structuration of relationship and incentives within a given locality.

However, while Sandfort and Stone examine policy fields as they manifest themselves on the ground in a particular locale and for specific program activities, we approach policy fields from a regional and societal wide level to examine broader parameters and dynamics affecting nonprofit organizations and their role in public policy. Two examples illustrate the relevance of our policy fields approach:

The Affordable Care Act (ACA) of 2010 transformed the funding and regulatory environment for nonprofits involved in any form of health care, although the extent of change varies tremendously across the country. For example, some states substantially expanded Medicaid as part of the ACA, while others did not. Although the research is mixed, considerable evidence exists that Medicaid expansion resulted in increased capacity by health care providers (Antonisse et al., 2019), most likely because of an infusion of funds into hospitals and community health centers. In states without Medicaid expansion, evidence suggests that many hospitals have struggled financially due to the high cost of uncompensated care (Norris, 2019)

Museums have historically received scant government funding in the USA, although they are beneficiaries of a variety of important tax benefits (e.g., charitable tax deductions, tax-exempt bonds, exemptions from real estate taxes). The result is a much more indirect relationship to government and very different relationship to philanthropy and the market than other types of nonprofits.

The actual definition of policy fields presents significant empirical challenges for the researcher. One starting approach is the existing classification systems and the availability of data. Within the US context, three rival systems exist: one based on IRS subsections, one based on economic activity, and one based on purpose/mission.

- *Internal Revenue Service subsections* to Section 501 of the US Internal Revenue Code (US Department of the Treasury, 2019, chapters 3 and 4). Section 501 consists of twenty-five subsection codes that are specific to the USA and therefore not useful for any cross-national research. It is also virtually useless in understanding policy fields since some subsections, most notably 501(c)(3) (“religions, charitable, and similar organizations”) and 501(c)(4) (“social welfare organizations”) contain a large and very diverse set of organizations. “Charities” registered under subsection 501(c)(3) account for 79 percent of the 1.72 million registered US tax-exempt entities (Internal Revenue Service, 2020, table 14, p. 29), but lacks any meaningful differentiations among them. Other subsections do capture very specific types of nonprofits, such as cemetery companies 501(c)(10), labor and agricultural organizations 501(c)(5), or business leagues 501(c)(6), but are not particularly relevant for understanding policy fields.
- *Classification of economic activity*. This system includes NAICS (North American Industrial Classification System, formerly SIC) in the USA (US Census Bureau, 2019) and the related ISIC (International Standard Industrial Classification system) (See United Nations, Department of Economic and Social Affairs, 2008). NAICS is a six-digit hierarchical coding system assigned by the

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US Census Bureau to track and analyze business and industry trends for specific economic activity, such as HMO Medical Centers (621491) or Kidney Dialysis Centers (621492).³ Applying this classification system to nonprofit organizations is at times a lesson in how to fit a square peg into a round hole: it does not work across the board. However, it does help identify very specific services and allows for comparisons across sectors. For part of our analysis, we therefore draw on data produced using these categories.

- *Mission or purpose.* Several competing systems are specifically designed for classifying nonprofits in terms of their mission or purpose. The National Taxonomy of Exempt Entities (NTEE) has been hosted by the National Center for Charitable Statistics at the Urban Institute (National Center for Charitable Statistics, 2019a, b)⁴ and is used by the IRS to code tax-exempt entities. The International Classification of Nonprofit and Third Sector Organizations (ICNP/TSO) is hosted by the United Nations and recommended for use in National Satellite Accounts on nonprofit and related institutions (United Nations, Department of Economic and Social Affairs, 2018). For the USA, the NTEE system incorporates some IRS subsections and has some overlap with the NAICS/ISIC systems.

The NTEE/ICNP/TSO classification systems allow for identification of particular types of nonprofit activities, e.g., environment/animals, international, religion, advocacy. In many cases, these mission-based classification systems are preferable to the alternatives above since they were developed for the purpose of distinguishing among different types of nonprofit activities. However, neither system is systematically applied to all nonprofit organizations and, unlike the NAICS and ISIC classification systems, both lack stringent quality controls on how codes are assigned. Nor do many nonprofits fit comfortably into one and only one code. In addition, the ICNP/TSO system is based upon “the majority expenditure rule” which means that organizations are classified into different categories depending upon their major expenditure for a particular activity (Anheier, Lang, and Toepler, 2020).

Despite these empirical challenges, we believe the policy fields approach provides a useful handle for understanding recent nonprofit sector developments. For example, in the USA, a wide-ranging discussion has focused on the

³ Each is a sub-industry under NAICS 6214 (Outpatient Care Centers), which in turn is a sub-industry under NAICS 62 (Health Care and Social Assistance).

⁴ A description of the NTEE Core Codes is available online at <https://nccs.urban.org/project/national-taxonomy-exempt-entities-ntee-codes>. The detailed codes are available online at <https://nccs.urban.org/publication/irs-activity-codes>. Accessed September 13, 2019.

value of the charitable deduction, whether limitations or restrictions should exist on the amount a person might claim as a deduction, or whether tax incentives should be made available to non-itemizers. The 2017 Tax Cuts and Jobs Act (Gale et al., 2018) increased the standard deduction, but also raised the limit on cash donations for those that itemize deductions. A policy field perspective highlights the differential impact of any scaling back of the charitable deduction, depending on the policy field of the nonprofit organization. In another example, the advent of performance contracting in child welfare and mental health has transformed the government–nonprofit relationship in these policy fields; but performance contracting is largely irrelevant to cultural institutions and environmental organizations.

Such policy developments involve fundamental changes in how nonprofits relate to government. This restructuring is most notably the case with regulatory policies, but is also evident in the impact of continuing fiscal crises and budget scarcity experienced by governments in the USA and elsewhere as well as the development of new public policy programs. We believe that our understanding of these developments would benefit enormously from applying the policy field approach we outline in the following.

Sectoral Dimensions of Nonprofit Fields

Our conceptual framework is designed to examine sector relationships across policy fields. To illustrate the application of the framework, we have selected several major policy fields that differ on key dimensions in our framework: health, human services, education, arts and culture, and religion. The first three fields represent substantially professionalized services to large numbers of service recipients (respectively known as patients, clients, and students). Across all three fields, the public sector is very prominent. However, the fields differ greatly in the particular role played by government and the prominence of market sector organizations.

The arts and culture field also includes many highly professionalized services (in this case, delivered to patrons or audience members), but with a much less significant role played by government (at least in the USA), while the market sector is prominent, although primarily in specific niches. Finally, the field of religion is one in which government plays an even less direct role than in the arts and culture field (at least in the USA); the market sector is relatively small.

As suggested by these brief summaries, the five fields provide a useful way to present our framework. We focus on six major sectoral dimensions. First, we consider the overall economic size of the field (all sectors combined) since a major driving force is the political salience of the field. Next, we examine the distribution of the economic pie across the sectors by analyzing the share of paid employment

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in each of the three formal sectors: government, nonprofit, and market sector organizations. These patterns align with the actual delivery of services in each field and with the most likely type of organization that service recipients would encounter. (In this part of our analysis, we ignore sole proprietors and self-employed workers, who would otherwise be included among the market sector). Third, we provide a more qualitative description of the functional division of labor across the sectors with particular attention to the role of government.

The last three dimensions focus on the political economy of the fields with specific attention to cross-sector dyadic interactions between nonprofits and respectively government, the market, and the informal sector. We give greatest attention to nonprofit–government relations, especially public spending (amount, form, and level of government), tax policies (tax exemption and other tax policies), regulatory policies (by level of government), and the policy role of nonprofits. Our briefer look at nonprofit–market relations considers regular market exchanges, and the extent to which nonprofits and for-profits occupy different market niches, compete directly, are mutually dependent on one another, and interact on policy domain issues. Finally, we provide a quick overview of the extent to which nonprofits interact with the informal sector through donations, volunteering, and civic engagement/advocacy activities.

Dimension I: Size of Field

Determining the overall economic size of these five fields is fraught with uncertainty and requires pulling together data from disparate sources. Appendix I details our best estimates and our methods. As the notes to the table in Appendix I detail, we extracted information from a variety of sources, a job made infinitely more difficult by the unfortunate decision by the federal government to stop publication of the *Statistical Abstract of the U.S.* We believe these numbers are in the ballpark but most certainly incomplete. We caution that compiling similar information for other nonprofit policy fields is equally challenging, probably even more so, because many (such as international, housing and community development, environment) do not have well-defined boundaries or institutionalized data sources.

However, major differences do indeed exist among the five fields. Health is at the top, probably approaching \$4 trillion (roughly 18 percent of the gross domestic product) in 2017, followed by education (almost \$1.5 billion) with social services (roughly \$370 billion, not counting income assistance programs) notably below. Arts and culture (about \$145 billion) and religion (about \$160 billion) have substantially lower amounts.

These differences are also roughly proportional to public attention devoted to them. Intense debates surround health and education (the two largest fields)

reflecting, in large part, the economic scope of these fields and concerns about the standard of service and care that we receive for the high levels of investments, especially government investments. Moreover, significant public policy reform efforts in both fields in recent years have occurred – most notably the Affordable Care Act of 2010 for health care (Kaiser Family Foundation, 2013) and “No Child Left Behind,” legislation in the Bush Administration to hold public education more accountable (Klein, 2015), and the “Race to the Top” program in the Obama Administration to encourage more charter schools and choice in public education. The debates have been much more muted in social services and religion (the latter mainly focused on the perennial issues about separation of state and church), with arts and culture receiving relatively little attention in recent years.⁵

Dimension II: Share of Economy

While differences in the economic size of the fields are important in their own right (and relate to political attention to the field), the more revealing information is the share of the market held by each of the three sectors. To address this issue, we examine the actual delivery of services in the different policy fields by sector. We rely on data collected as part of the *Quarterly Census of Employment and Wages in the U.S.*, which provides details on employment and payroll for detailed NAICS industry codes by public and private employers covering more than 95 percent of US jobs. Although nonprofit employers are grouped with private employers, we are able to provide minimum estimates of nonprofit employment.⁶ These data allow us to look at the share of paid employment among the three sectors by industry and how those shares have changed over the 1995–2018 period.

Health Care. The Appendix I table and detailed Appendix II graphs show that the five policy fields differ significantly in the role they play in delivering services.⁷ In the very large health care field (excluding social assistance), for-profit entities dominate (see Appendix Figure 1), accounting for just under half of all paid employment in the state and growing at about just under 2 percent per year.

⁵ There have been intense debates in prior years about artists pushing conventional boundaries related to religion, patriotism, and sexuality.

⁶ For a discussion of the uncertainties associated with identifying nonprofit paid employment, see appendix A (pp. 28–30) in Grønbjerg and Toledo (2014).

⁷ This part of our analysis draws on data on trends over the 1995–2018 period in paid employment by sector for specific industries, compiled by Grønbjerg and associates for the state of Indiana (<https://nonprofit.indiana.edu>), the only location where detailed, long-term trend analysis has been completed. Comparisons between the Indiana data and similar, but more limited, analyses for the USA and selected other US states, suggest that the Indiana patterns are roughly similar to those in other locations (see Johns Hopkins Center for Civil Society Studies, 2019).