Towards a Normative Theory of the "Third" Sector

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Normative Theory

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I. Introduction:

In liberal societies, individuals are viewed as society's basic building blocks. It is their particular aspirations and desires that animate the society. It is their satisfactions that provide the touchstone of social welfare. This is true in both economic and political realms.

In the economic realm, liberal societies embrace market economies in which individuals enjoy a high degree of freedom and responsibility in attending to their own economic well being. They are free to develop their own capabilities, to initiate businesses, to accumulate wealth, to sell their labor, and to buy what they want.

In the political realm, liberal societies establish regimes in which government is made accountable to citizens acting individually and in association through the processes of democratic governance. Individuals are free to form their own ideas of the kind of society they would like to inhabit; to articulate those views in the "public square;" to associate with one another in "common cause;" to elect candidates to public office; to appear before governmental bodies to present their views; and to seek redress from courts if they have been wronged.

Ideally, this commitment to individuals and their freedom is rooted in the political culture of a society -- the deeply held commitments and views of society's individual citizens, as they have been shaped by past experience and traditions. But liberal societies also anchor their commitment to individual freedom with constitutions and laws that guarantee individuals rights. In the economic realm, individuals have rights to own property, to contract with others, to earn income and spend it as they wish. In the civic and political realm, individuals have rights to privacy, to worship as they please, to assemble, to speak, to associate for common purposes, and to elect those who wield the (delegated) powers of the state.

A. "Private" and "Public" Sectors

Perhaps because of the intense interest in individual liberty, it has become conventional for liberal, democratic societies to think of themselves as being divided into two large "sectors."[1] One is the "private sector:" the world of private individuals, of enterprise and exchange, of markets, money, and consumption. It is the realm in which individuals seek their fortunes and shape their destinies by creating businesses or seeking employment. It is the place where individuals can pursue their own interests and vision of the good life by spending their money on the products and services that give them pleasure. And it is the realm within which co-operation is developed primarily through contracts negotiated among agents who are free to say yes or no to the deal.[2] This is the domain within which individual freedom is (now commonly thought to be) maximized.[3]

The other sector is the "public sector:" the world of politics and government. By politics, I mean the processes through which individual citizens, and groups of citizens,

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[1] I am following Robert Wuthnow here.[Wuthnow, 1991 #12,p.5]
[2] Other meanings of the word private in this concept, see [Wuthnow, 1991 #12,p.8]
[3] For an alternative view, see Hannah Arendt

argue with one another about the kind of society they would like to have. I also mean to include the processes through which citizens and their representatives decide collectively that some purpose is sufficiently important that the powerful instruments of government -- the authority to tax and to regulate -- ought to be deployed to accomplish the goal.[4] This idea of politics, then, includes not only elections conducted at federal, state and local levels, but also the politics that surrounds the other policy-making processes of government -- the lobbying, information exchange, and deliberation that occur within legislatures and administrative agencies.[5] By government, I mean those actions that are taken by public officials on behalf of the collectively defined purposes: enforcing the rules the collective has established, collecting the taxes that have been levied, and providing services to those deemed worthy of public largesse.

In principal, individual liberty holds sway in the political/governmental realm as well as in the private/economic realm. As noted above, in politics, individuals are free to hold their own views about how society ought to be organized and the substantive purposes the collective should take responsibility for achieving. They are free to express these views, to persuade others that their vision is compelling, and to cast votes for candidates whose vision is closest to theirs. And individuals who believe they have been unjustly treated by the state can have recourse in the courts. In these respects, the world of politics and government, like the world of the market, is a world of individual freedom.

But the political/governmental realm is also a world in which the demands of the collective both frustrate and bear down hard on individual citizens. Unlike a market in which individuals can simply buy what they want, individual citizens can only achieve what they want -- the embrace of their particular ideas of public value in public policy -- by getting other citizens to want what they want for the society. Moreover, in the ideal politics of a liberal society, this process of aggregating support and building co-operation is supposed to done through the arduous work of persuasion -- not the far handier process of economic exchange that greases co-operation in the private sector.[6]

The political/governmental realm is also a world in which individuals can be coerced into doing things they do not want to do. Once citizens and their representative have levied a tax, or passed laws prohibiting the pollution of the air and water, then individuals and private corporations can be forced to pay taxes and cease polluting on pain of civil or criminal penalties if they refuse. In these respects, the political/ governmental world is one in which the collective and its purposes are more important than individual aspirations; and the processes of persuasion, deliberation, and collective decision-making on one hand, and coercion on the other more important than the processes of economic exchange.

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[4] Treating the goal of politics as the engagement of the power of the state may be too limited a definition of politics. After all, much political activity never results in policy commitments. Political culture supports activities and efforts that are wider than elections or public policy formation. Want to be able to distinguish civic action from political action, and political culture from politics that shape policy making processes.

[5] By definition, policy-making involves the use of government powers to tax, to regulate, to recognize and authorize. Lindlbom, The Policy Making Process (Prentice Hall)

[6] Note, I am not saying that economic exchange plays no role in politics, or in administration. Downs, An Economic Theory of Democracy. Also, references on corruption.

Given these important differences, it is not hard to understand why liberal societies would choose to leave as much to the "private sector" as possible. Since there is apparently more "freedom" in the private sector -- more opportunity to form one's own view of what is worth doing, more opportunity to act on one's own initiative, and the right to refuse to go along if a proposed scheme is not in one's own interest -- any society that loved individual initiative and freedom would want to celebrate and advance the private over the public sector.

Of course, even the most zealous libertarians will admit that some important social goals cannot be conveniently achieved through the private sector alone. These include protecting individual rights (including rights to own property and make enforceable contracts), setting up and enforcing the rules of the market place (including measures taken to "internalize" costs to society that would otherwise be viewed as outside a firm's responsibility), and providing various kinds of "collective" goods (such as national defense and clean air). For these purposes, governmental action is technically required and almost universally supported.

More importantly, however, since not every citizen holds a libertarian view of society, individual citizens will not necessarily be limited by this particular philosophy in deciding on the proper role of government. Individual citizens, acting through the politics that are both authorized and actively encouraged by a liberal society, might discover common purposes they wanted to achieve that went well beyond the minimalist views of the libertarians. For example, in an effort to construct a just society, citizens might decide to use governmental powers to organize collective efforts to aid the poor and disabled, to provide health care to those who cannot pay, or to provide "merit goods" such as education and other cultural opportunities.

Finally, it may be an important mistake to see society as nothing more than a collection of individuals who encounter one another in markets and in politics. Such a view would miss the important work that government does to support the workings of a private market. Even more importantly, it would miss the important fact that individuals do not exist in society as pre-formed, atomistic individuals. Instead, they are formed by and situated within a set of social relations. Some of these are the intimate relationships between an individual, his family, and his conscience and faith. Others are the slightly more distant relationships of community, congregation, and workplace, Still others are the wider, more abstract relationships of national politics and international concerns. These relationships are important because they are enjoyed as an important part of life, because they shape moral and political views, and because they give more or less capacity to individuals to act on behalf of their social ambitions.

There is also much to be said for building co-operation through the cultivation of commitments to common purposes as well as through economic exchange. Shared goals are not necessary for co-operation. But they can both motivate individuals to act, and facilitate co-operation. Indeed, many business firms have noted this fact, and sought to build a commitment to a common mission as a way of supplementing the motivational and cooperative power that can be built from pay and hierarchy.

For these reasons, the world of politics and government, the public purposes that they reflect, and the distinctive mechanisms that they rely on to form a collective capacity to act, will always be a part of liberal society. This is true even if the form of collective life democratically agreed to follows libertarian principles. After all, there has to

be enough of a collective life to agree collectively that the lives of people bound together by geographically based governmental entities should be guided by libertarian principles. Obviously, there is a much thicker collective life if the citizens decide collectively to do more for one another than the limited obligations advised by the libertarians.

Indeed, it is important to keep in mind that the existence of some kind of collective, political life that can reach out and make claims on the private realm is virtually guaranteed once a liberal state has handed out important political rights such as freedom of expression, association, and voting. Once such rights are created, individuals will have the opportunity to form and pursue their own ideas of what society, as a whole, should be. Once individuals have these rights, politics will flourish.[7] Of course, some citizens (the libertarians) will keep pressing for the most limited form of state action as an ideal of justice. Others (the liberals and the communitarians) will press for an expanded version. But however vigorous this dispute becomes, it will continue to be shaped by a commonly shared idea of a liberal society: that individuals are the core of a society, and that the power of the state should be is kept at bay and used for only for those purposes that engage the commitment of a sufficient number of individual citizens.

Viewed from the perspective of liberal society, then, it is right to challenge those individuals who want to enshrine their own conceptions of public value in public policy with the frustrating task of winning the assent of their fellow citizens. This is true regardless of whether they are rapacious capitalists who see justice in free markets, or radical levelers who see justice in significant re-distribution. The heavy burden imposed by the duty of mobilizing others may not feel much like freedom of expression to the social entrepreneurs of the right or the left who are sure that their vision of society is the right one. But it is the only kind of free expression that a liberal society offers to individuals who want to use the shared powers of the state to advance their cause.

B. The "Third Sector"

Since 1974, it has become increasingly common to speak not only about the private/economic and public/governmental sector, but also about a "third sector" of society.[8] This "third sector" has been variously called the "independent," "civil," "voluntary," "charitable," or "nonprofit," sector. This is the sector that includes churches, trade unions, community organizations, business associations, political advocacy groups, foundations, universities, (many) hospitals, charities, cemetery associations, and soup kitchens.

The fact that this sector has so many names hints at the difficulty society has experienced in trying to comprehend its essential features. At the outset, it is not obvious what the Boston Symphony Orchestra has in common with La Alianza Hispanza? Nor is it clear how "third" sector organizations differ from those of society's "public" sector on one hand, and its "private" sector on the other. What, exactly, is the difference between a non-profit organization contracted to run a welfare to work program, and a government agency directed to accomplish the same goal on one hand; or between the YMCA and a commercial health club on the other?

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[7] [Gardner, 1983 #25]
[8] [Needs, 1975 #53][O'Connell, 1983 #37]

Indeed, when one looks at the activities and associations conventionally included in the sector, one can't help but be struck by the sector's astonishing diversity.[9] For example, activities and enterprises within the sector vary in terms of their degree of *formality and durability*. Some activities -- such as the sudden up-swelling of voluntary contributions of money, food, and clothing that follow natural disasters, or the emergence of temporary neighborhood agreement to patrol their streets when challenged by the emergence of street level drug markets -- may operate only temporarily and informally. Other activities -- such as the creation of a charter school, or the establishment of a new church -- quickly become formal organizations whose purposes include surviving over a long period of time as well as offering companionship to its members, and achieving substantive social results.

The informal enterprises and the formal organizations within the sector part also differ dramatically in their *scale and structure*. Some, like the American Red Cross, are very large. They control a huge amount of money and property, employ large numbers of people in both a voluntary and paid capacity, and operate in hundreds of communities across the country. Among the large organizations, some are tightly controlled and focused on very specific, centrally controlled objectives; others have more decentralized, federalized structures which allow local chapters to pursue their own objectives, and, as a result, end up supporting highly varied activities and services.[10] Other organizations in the sector are very small and transient -- a group of citizens mobilized temporarily to deal with a neighborhood issue, or a person with a cause and a letterhead. Among the smaller organizations, some have very close, deep connections to their local communities; others operate more disconnectedly.

The associations, enterprises, and organizations that constitute the "third sector" also have widely varying *substantive purposes*. Some focus on educating citizens; some on curing the ill; some on encouraging artistic expression; some on relieving the suffering of the poor and disabled; some on advancing the rights of individuals living in oppressive political regimes, and some on nourishing the faith of those who believe in God and particular religious doctrines.

The organizations and enterprises of the third sector also differ significantly in their *functions and activities*. Some organizations -- such as the United Way, or the United Jewish Appeal -- work hard at raising money for public purposes; others -- such as the Pew Foundation -- work hard at investing or spending or money in to produce the maximum effect on social problems considered important by the donors or their trustees. Some of the enterprises within the sector engage in political advocacy and education, seeking to arouse citizens to direct action to deal with some social problem, or to support their efforts to get the issue on the political agenda for governmental action. Others eschew education and lobbying in favor of direct action. They provide services directly to those who are in need: food to the hungry, medical aid to the sick; culture and education to the unenlightened. Some organizations use their assets and capabilities primarily to help the individual members who voluntarily joined the association; others concentrate on providing services to others outside the membership of the organization.

The enterprises, associations, and organizations of this sector also differ a great deal in the *forms and sources of the resources* they rely on to sustain their operations.

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[9] Salamon, Boris

[10] Anne Standley's Paper on Federal Organizations. Also Skocpol.

Some are staffed almost entirely by volunteers, with very little money flowing through the organization, and with few assets being owned. Still other organizations have a great deal of money flowing through them, but the money is raised primarily through appeals to many small, individual contributors. Still others raise significant revenues by selling products and services to individuals much like any private sector commercial enterprise. Some of these sell products and services to the government, or in government subsidized markets of one kind or another. Still others have endowments that allow them to operate with a high degree of independence from the need to satisfy either charitable givers on one hand, or paying customers on the others. In essence, if we were to look at the revenue side of the financial reports of these organizations, and were to supplement the financial reports with a more complete accounting of all the sources of labor and material to these organizations, we would find much variability in the relative importance of the different sources of funds, labor, and material.

It is also important that enterprises included within the sector are establishing many different kinds of "cross-sector partnerships," and are also taking on "hybrid forms." Sometimes, government will either create nonprofit entities or enter into a long-term partnership with existing nonprofit organizations as an alternative to building a new bureaucracy to achieve a public purpose. Other times, nonprofit organizations will enter into partnerships with commercial enterprises to help them finance their operations, or get their message and values communicated more effectively. Some nonprofit organizations will form for-profit subsidiaries; and some for-profits will occasionally find it advantageous to form or acquire a non-profit enterprise in a closely related business.

C. The "Social Construction" of the "Independent Sector"

With so much variability within the sector, and with so much "blurring of the lines" among the organizations in this sector and others, it may be a mistake to talk about the sector as though it were a coherent whole that could be distinguished in a rigorous way from other social sectors.[11] Indeed, at least some historical commentators have argued that the nonprofit sector is not a real, distinct sector of society, but instead a "social construction."[12]

Now, the claim that the idea of the nonprofit sector is a "social construction" has two quite different connotations -- one suggesting a nefarious plot, the other a more benign and straightforward observation. The nefarious implication is that the idea of a "third" sector was self-consciously created and marketed for the specific strategic and tactical purposes of a segment of society that came to be called the "independent sector." It was designed to give special social status and particular social benefits to particular kinds of organizations.[13] Beneath this claim is an implied criticism: that society has been sold a bill of goods: that the sector is not really so unique, and that its special

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[11] It has become conventional to say that there is a blurring of lines across the sectors. That may be true, but one of the things that keeps the lines across sectors pretty distinct is the law which incorporates organizations as one kind of legal being or another. It might be more accurate to say that the organizations are blurring, in the sense that we now have organizations composed of both for profit and nonprofit pieces; and among the nonprofit organizations, we have some that rely more on fees for services than on charitable contributions; and some that are engaged more in service delivery than in advocacy. But at any given moment, an organization is legally constituted as one thing or another, and in that respect, there is little blurring.

[12] Dobkin Hall

[13] Dobkin Hall

status and privileges are not really deserved. In this view, what the sector needs is not more protection, but a tough shakeout.

The other, less nefarious implication of the idea of a "socially constructed sector" is the idea that a distinct sector of society was either created, or protected, or supported by particular public policies adopted precisely because society, acting through the processes of representative government, judged that there were important rights to be protected, or important benefits to be produced for individual citizens and the broader society that could best be secured by public policies that supported a distinctive "third" sector. In this conception, there is no deception; simply a choice made by society to offer more or less modest recognition, encouragement, and support to a particular set of activities, processes, and institutions that came to be called the "independent" or "voluntary" or "charitable" sector.

One of the things that makes it difficult to decide which of these two accounts is the better interpretation of our historical experience is that it is hard to identify and catalogue the public policies that actually underwrite the existence of the sector. The most visible and widely discussed public policies, of course, are the federal income tax policies that provide tax exemptions to organizations operating within this sector (and in some cases to those who make financial donations to these organizations). Since the federal income tax code is a relatively recent social invention, if it is true that the only way that society as a whole can recognize and support the nonprofit sector is through federal tax policy, then the claim that the social vision of this sector is both new and contrived rather than ancient and organic seems quite plausible.

Yet, on review, it seems clear that federal tax policy is not really the public policy instrument that *created* the sector; it is only one of the more recent public policies that has had to *accommodate* the continuing existence of a unique social sector. Indeed, federal tax policy itself simply incorporated a tradition dating back to Elizabethan England that allowed many kinds of privately supported activities that achieved public purposes to be excused from taxation.[14]

Perhaps the most important and enduring public policies that support the emergence and sustain the existence of a nonprofit sector are not tax policies at all. They are, instead, the important civil and political rights that are embodied in the constitutions of liberal societies.[15] Once a society grants individuals rights to associate, and to speak freely about public affairs, one might reasonably say that the groundwork has been created for something like an independent, civil sector to emerge. All one needs to add is a bit of public-spiritedness and confidence among individual citizens. Then, in the political space that is created, the wide variety of self-help, community, and political associations that De Tocqueville celebrated in *Democracy in America* will inevitably emerge. One could also argue that once one has separated church from state, a space is opened up between church and state for a kind of moral energy. That space may be filled partly by the religious spirit that used to be channeled directly through the state apparatus spilling over into new and different kinds of religious institutions; soup kitchens, hospitals, faith-based political advocacy groups. It may also be filled by the emergence of more secular agencies with either civic or political ambitions[16] Equally

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[14] Fremont Smith
[15][Irish, 1995 #42]
[16].[Hammack, 1998 #54]

important may be the civil laws (rooted in both statutory and common law) that allow some kinds of social enterprises to become incorporated (either as for-profit or non-profit corporations). In doing so, the enterprises acquire the right to own and dispose of property, to remain in existence in perpetuity, to form binding contracts with others, and so on. These policies are all much older than the federal income tax.

Beyond the legal architecture that guarantees a space within which public spirited, voluntary action might occur (both by protecting some kinds of activity and suppressing other competitive kinds), public policies can provide more or less material support to the activities of the sector. In one form, this support comes from providing special tax relief to enterprises within the sector. As noted above, this tax relief includes exemption from federal income tax. Far more important than exemption from federal income taxes (and of more ancient origin) is relief from the burden of state and local property taxes. Tax policies favor some nonprofit organizations not only by exempting their operations from income and property taxes, by also by encouraging charitable donors to contribute to these enterprises. The federal government and most states provide income tax exemptions for charitable contributions. They also make special provisions in inheritance taxes for charitable contributions.

Beyond the *indirect* material support that comes from tax relief, the government also provides what looks like and sometimes is direct financial support to some nonprofit enterprises. Sometimes, this direct financial support comes in the form of *grants* to nonprofit organizations; other times in the form of contracts.[17] In both cases, government provides the grants and contracts to nonprofit organizations not simply because it wants to support the nonprofit sector as a social sector, but because the organizations within the sector provide some advantages to government in what it is trying to accomplish. Still other times, the financial support comes in the form of government subsidies to markets in which nonprofit enterprises are operating: e.g. medicare and medicaid payments in the health market, and vouchers in both the education and housing markets.

In this array of public polices that have over time structured public and governmental recognition of the nonprofit sector and provided material support to it, federal income tax policies are relatively recent. They may also be less fundamentally important than is usually assumed. Indeed, it may be that one of the most important contributions that federal tax policy makes to the public's understanding and support of the nonprofit sector is that it has empowered the IRS to collect and publish information about enterprises within the sector. It is only through these efforts that society has developed any accurate sense of the scope and nature of this important sector.

Indeed, it may be that one of the important reasons that society has had so much difficulty understanding this sector is not only that it is hugely diverse, not only that it is supported by a wide variety of public policies, and not only that statistics about it have been hard to come by, but also *society has never really engaged in a sustained, public discussion about the sector and its role in society*. The provisions of the federal income tax code that recognized the sector as distinct from commercial enterprises, and gave it some advantages over these enterprises, were borrowed nearly verbatim from Elizabethan law, and inserted in the modern tax code *without legislative discussion*.[18] At

[17] [Salamon, 1995 #46][Smith, 1993 #48]
[18] This from Jeanne Gallagher

various times in our history (most notably in the early 20th century in heated discussions about the unaccountable power of philanthropists such as Rockefeller, Morgan, and Vanderbilt; and then, again, in the late sixties when citizens became aroused by the secret power of the Foundations that had been created by the great philanthropists), we have had short bursts of intense, highly polarized discussions about the sector.[19] But that social interest in the sector has not been sustained. Most of the public policies have evolved in relatively technical discussions of the law -- not in a broad-based, public discussion of what the sector is, and (more importantly) what it does to and for a society.

The purpose of this paper is to help to remedy this situation. The goal is to encourage and support a wider discussion of this "third sector:" what it is, how it fits in the broader society, what contributions it does -- or could -- or should, make to the overall welfare of society. These are crucial issues for those who want to claim that the sector is unique and important, and who want to shape policies and practices to maximize the social value of the sector. It is equally important to those who believe that society is being sold a bill of goods, and that it is subsidizing the appearance but not the reality of voluntarily contributions to public purposes. The technique is to essay a normative theory of the third or voluntary sector in the context of liberal societies.

In this effort, I will take the United States as my primary focus. In doing so, I understand that I am limiting the generality of my claims. I know that the United States is highly unusual in the international environment. It is unusual even in the context of liberal societies. Still, it is hard enough to understand this sector in the United States, let alone learn how to extent the analysis to other political cultures and institutional arrangements. I leave the challenge of extending the analysis to others, or some future time.

D. The Argument in Brief

At the risk of some dramatic tension but in the interest of alerting readers to the points I wish to make, I will state my central conclusions here and then develop them more laboriously in the rest of the text.

My central argument is that one of the most influential conceptions of the important normative purposes of the third sector is far too narrow. I will call this view the "social welfare paradigm" of the third sector. In this view, the important task of the nonprofit sector is to "fill the gaps" between the market and the public sector. More specifically, the important purpose of the third sector is to help society become the ideal of a decent and caring society: one committed to ensuring that the hungry should be fed, that the homeless should be sheltered, that the poor should be helped to become self-reliant (and aided in the meantime), that the ill should be cured, that children should be protected and educated, and so on.

In this conception, the third sector contributes to this important social result through three instrumental contributions. First, the sector spawns organizations that are particularly efficient, effective, and innovative in accomplishing the important social welfare objectives. The organizations in the sector are better than either for-profit enterprise or government bureaucracy in finding the means to alleviate poverty, shelter the homeless, cure the ill, and so on. In this view, the non-profit sector is valuable principally as a *producing* (as opposed to an *expressive* or *organizing*) enterprise --

[19] Need references here to legislative debates

capable of taking resources from a variety of sources including both government and charitable contributions, and translating them into desired social results. Second, the third sector is also important as an *advocate* for the important social welfare goals that are often neglected by a somewhat selfish society. Because the nonprofit sector cares about people who cannot help or defend themselves, and has concrete experience with the reality of their lives, it is often in a powerful position to testify as to these conditions, and in doing so, to prick the conscience of the nation, and to build political support for the use of state powers to achieve broad, social welfare goals. Third, the sector has the capacity to scoop up voluntary contributions from individuals who would like to contribute to these welfare goals, even if not coerced by the state to do so. Of course, this view holds that such contributions are never enough to achieve the ambitious social welfare goals by themselves. To be successful, the contributions must be aided by government and tax supported financing. But the charitable contributions are valuable in giving the sector some independence and freedom to experiment that are particularly valuable to government as it searches for effective means of dealing with enduring social ills.

Note that in this conception of the "third" sector the parts of the third sector that become particularly prominent are the enterprises that are classified by the IRS as charitable [501©3] organizations: social service delivery organizations, political advocacy organizations, and some significant private foundations. It is these institutions that are most engaged in caring for and empowering the poor, and in pursuing an ambitious set of social welfare goals. Religious organizations might also be considered important in this conception as the important crucibles within which individual commitments to the poor and oppressed are developed and nurtured, and as the institutions that provide some of the productive infrastructure for delivering services. The enterprises that tend to be de-emphasized in this conception are member serving associations, more general political associations, and organizations contributed to scientific research, higher education, and so on. Because these organizations are less focused on charitable purposes, they tend to be ignored as parts of the nonprofit sector by those who think that the sector should be primarily focused on achieving "social justice" -- this despite the fact that many such organizations are incorporated as nonprofit enterprises, and believe that they are making public contributions of some important kind.

There are at least two broad alternatives to this "social welfare paradigm" of the voluntary sector. The two alternative paradigms emphasize different normative purposes, value different contributions made by voluntary associations and nonprofit organizations, and give more prominence to the parts of the voluntary sector that are focused less on charitable purposes.

One of these alternatives could be called the "individual rights paradigm" of the nonprofit sector. In this conception, what is important about the voluntary sector is not that it provides operational and political support for a particular conception of a just and caring society; it is, instead, that the voluntary nonprofit sector emerges as an inevitable consequence of having handed out certain kinds of rights. Once a liberal society gives individuals *property* rights, they are free to do what they want with their money -- including giving to others or to advance various public purposes that the particular individual thinks is important to achieve. Once a liberal society gives out *political* rights to speak and to associate, individuals are free to combine and associate for mutual advantage. They can combine together in self-help groups. They can combine in civic organizations to achieve public purposes through private effort, without necessarily calling on the powers of government to supplement their private efforts. Or, they can

combine in political associations that seek to enlist the assets and powers of government to achieve their particular (more or less idiosyncratic) conceptions of public purposes. In this conception, the value of the voluntary sector doesn't lie in any instrumental social purposes; it lies in the fact that it emerges as a consequence of creating certain kinds of economic and political rights.

Note that in this conception, the voluntary sector emerges not simply because rights have been handed out; but because individuals choose to exercise these rights in particular, public-spirited ways. Philanthropists ranging from George Soros to Osceola McCarty use their property rights to give money to referenda supporting the medical use of marijuana and the education of poor African-American women. Civil activists ranging from John Gardner to _____ can use their civil rights to create citizen associations that can enhance the economic development of cities, or the defense of poor residential neighborhoods from drug dealers. Political activists ranging from _____ to Marion Wright Edelman can use their political rights to create organizations that press for permission for children to pray in public schools and to have schools that can effectively educate children. In each case, the individuals in question, as well as those who support them with additional money, time, and other forms of encouragement and material assistance are animated by desires to do for others, or to realize ideals of justice and caring in the wider society. Because individuals' ideas about who needs help, and what kind, and what constitutes a just and decent society differ, the nonprofit sector emerges with no distinctive political commitment. The sector as a whole includes the views of committed libertarians who think that society owes little to the poor, and that the best way to help the poor is to refuse to offer aid as well as committed liberals who think that the most important way that private charity can contribute to social welfare is by developing programs that can cure social ills, and advocating for the widespread, governmental adoption of these programs.

The fact that individuals have such desires suggests another way to think about the value of the nonprofit sector to individuals in the society. It is valuable not only to protect their rights, but also to allow them to satisfy certain kinds of preferences. In this conception, the nonprofit sector makes individual lives better in society by making it easy and convenient for them to act on certain kinds of preferences that can be conveniently satisfied. A person sitting in the mid-west, concerned about the plight of earthquake victims in Taiwan, might feel a desire to help. *Without* a charitable enterprise like the American Red Cross, that person might not be able to act on their impulse. *With* the American Red Cross in existence, however, it becomes much easier for the individual to act. They can send a contribution off and rest reasonably well assured that much of that contribution will reach its target. As important, they can believe that their individual contribution might be added to others, so that the aid that arrives will be big enough to make a difference. All of this, presumably, is experienced as a gain in individual satisfaction at least as important as the satisfaction that can be delivered to individuals when a private organization figures out how to produce a fresher and faster hamburger for a given cost.

Both accounts given above emphasize the value of the nonprofit sector not to the aggregate performance of the society as a whole, but to some individuals living in the society. The nonprofit sector is seen as a guarantor and a reflection of important economic, civil, and political rights; and as an enterprise that is valuable in satisfying donors as well as clients. A third account, one that might be called a "communitarian paradigm" would find value in the nonprofit sector not in its ability to underwrite a society

committed to social welfare, and not in its ability to satisfy individual contributors, but instead in its ability to create "social capital" that can help strengthen civil society and the quality of democratic governance. In this conception, what is important is that the voluntary sector is a place where individual combine -- sometimes in communities of similar people with similar tastes, but other times in more diverse communities. The combining, in turn, creates a capacity for collective action that would not otherwise be available. And that capacity turns out to be not only satisfying to individuals, but also capable of strengthening the processes of civil and political action. In short, the voluntary sector might be most important as the glue that helps bind an otherwise atomistic liberal society into a thicker community with all the risks and benefits that such developments entail to individuals and to the collective.

Note that if one adopted either the "individual rights" paradigm, or the "communitarian" paradigm, the parts of the nonprofit sector that would be considered important are much broader than those deemed important in the "social welfare paradigm." If we take the individual rights perspective seriously, individuals or associations who want to spend their money or their political rights to advance the claim that society is made better off if it does less for the poor or downtrodden have to be considered important alongside those who use their resources to aid or advocate for the poor. Similarly, the "member-serving organizations" that form to provide benefits to their individual members have to be valued as potentially important in building social capital and a capacity for collective action, even though they offer little aid to those outside the organizations. This is true even if the organizations are composed primarily of middle-class members. And, among public benefit organizations, we would have to take wealthy professional organizations such as Harvard as important not only for their production of benefits to the poor and middle class, but also as vehicles for the expression of individual donor's desires to contribute to intellectual excellence and scholarship.

In my view, the "individual rights" and "communitarian" paradigms capture social values and potential contributions of the third sector to society that are at least as important to the ultimate welfare of liberal democracies as the commonly embraced "social welfare paradigm." Indeed, I would go even further and say that I think it is a grave mistake for the society (and those who lead its thought about the third sector) to assume that the sector's principal value lies in the political and operational support it provides to the welfare state. I think this is an error on two grounds.

First, I think it is politically important that the voluntary sector be one that is open to individuals with many different political commitments and persuasions. This is a necessary condition of political freedom. And if we mean for the third sector to be an active, vital sector within which individuals and associations with many different ideas about the public good can find nurture, we ought to talk and act consistently in these terms. The Christian Coalition is as important as the Children's Defense Fund.

Second, I think it is particularly important that we emphasize what might be considered the *expressive* and *community building* aspects of the nonprofit sector over its productive ability to achieve results. The reason is that, in my view, there is very little about nonprofit organizations as producing enterprises that could give them a long run sustainable advantage over for-profit organizations on one hand or government organizations on the other. In contrast, there is much about voluntary associations that gives them a sustainable advantage over both for-profit and governmental organizations as a channel for the expression of individually held values about society, and as a device

for building social capital. If the price of this is that we have to acknowledge that the voluntary sector will include public spirited people with both left and right political views, and from different classes of society, that is a price that I think society ought to be willing to pay.

II. A Starting Point: The Conventional Public View of the Third Sector

At the outset, it is useful to reclaim a simple-minded, commonly-held view of the "voluntary sector:" the kind of understanding of the sector that an ordinary citizen might have. This conception may be far from the contemporary reality of the sector as it now exists. And some of the elements that make up the conception -- such as a public purpose, or a public-spirited motivation -- may be vague and conceptually ambiguous. But this reclaimed idea might also have the great virtue of aligning with common public understandings of the nature and purposes of the sector, and thus remind us of what we might all have at stake in the continued existence of the sector. It may also contain the kernels of an important idea about the sector that can be developed more thoroughly as a normative ideal, and then realized more reliably through the policies that shape the sector, and the practices of the organizations that comprise it.

A. The Idea of a "Public Purpose" or a "Public Good"

The common idea begins, I think, with the idea that there exist important "public purposes" that would be valuable for society to achieve.[20] To some degree, of course, these ideas of important public purposes derive from moral -- often religiously rooted-- ideas. This includes the ideas that it would be valuable for the society to end hunger, to alleviate poverty, to cure the sick, to protect and educate children, and to redeem the wicked. These ideas could also include the idea that society as a whole should become "enlightened;" that is should pursue higher education, engage in scientific research, and celebrate art and culture as an important way of recognizing what is both common and unique to human societies over time and across the globe. These ideas also include a pre-occupation with the importance of building the infrastructure for economic progress: legal institutions to protect property rights and allow commerce to proceed unimpeded, a physical infrastructure of roads and waterways that would allow the free movement of people and goods, a technical research capacity that could spawn technological inventions, and so on. In short, there is some notion of a set of purposes that would be valuable to the collective as a whole, but would not necessarily be in the interests of any particular individual to produce for him or herself.

1. The Social Value of a Market Economy

It is important, I think, that this conception of public purposes does *not* typically include the contributions that the ordinary operations of a market economy make to individual and social wellbeing. They do not include the jobs that are generated for workers, the products and services that are offered for sale to consumers, or the wealth that is created for shareholders.

These things are valuable to society of course. They are valuable to the individual workers, consumers, and shareholders who receive the benefits. Moreover, since these individuals are members of the society, one can in an important sense say

[20] [Mansbridge, 1998 #15]

that social welfare has been improved when these satisfactions have been produced. In effect, to the extent that social benefits are equivalent to the summation of individual economic returns, businesses create a great many social benefits.

One can even go further and claim that a vital economy is a kind of socially valuable collective good. The idea is that living in the midst of a vital economy is a valuable experience for individuals beyond their particular claim as a worker, or customer, or shareholder. Indeed, this view gains plausibility from the fact that individual citizens show that they value a healthy economy as an important social condition (as well as the individual benefits that a strong economy brings) by routinely voting to elect presidential candidates who both produce and promise a strong economy.[21]

So, when thinking about "public purposes," it is important to recall that the private market economy makes a large *social* contribution as well as supplies significant individually enjoyed benefits. Still, the starting view of the "third" sector takes it for granted that there are important "public purposes" beyond the contributions made to the society by the private market.

2. Market Failure

Over the last half century, work in economic theory has allowed society to gain significant precision in characterizing some things that individuals, desiring things alone or in the company of their fellow citizens, might want that a market will not reliably produce. This includes the difficulty of getting market mechanisms to attend to effects produced by economic agents and valued by individuals that are not priced and sold within markets; for example, the impact that mining, logging, and manufacturing enterprises could have on the environment; or the impact that dangerous consumer goods could have not only on the well-being of (unwitting) customers, but also on that part of the public fisc that has been committed to financing the health care of (even negligent) consumers. These are called "externalities."

It also includes the production of important "collective goods" such as national defense. These goods have the characteristics that individuals cannot be (conveniently) excluded from enjoying them once they have been produced, and that one person's consumption of the good has relatively little impact on another's. As a result, there is neither a convenient way to ask individuals to pay for their share of this good, nor is there a reason to ask individuals to do so. Yet, there is a cost of producing the good that needs to be covered. And, since a market economy has only one way of covering the costs (getting individual consumers voluntarily to pay for them), and that method is precluded by the inherent nature of the good being produced (it is collective rather than private), the private sector alone will not produce enough of these particular goods.

The market also cannot necessarily be relied upon to produce a just or fair distribution of wealth and opportunity. Of course, to the extent that one's view of a fair and just distribution of wealth consists of being paid for one's individual contribution to the performance of the economy, and one believes that the market accomplishes this goal, the market can come pretty close to producing justice and fairness.[22] But to many individual citizens, this particular principle of distributive justice is wrong. Although it

[21] References to the importance of economic performance in predicting election results.
[22] The justice of a market economy.

seems fair to reward individuals for their talents and their efforts, critics of this conception of justice point to the fact that individuals start with quite different individual endowments, and much different family circumstances and neighborhood environments.[23] They note that luck plays an important role in determining what endowments one happens to have, as well as the kind of character one develops under the influence of intimate and social circumstances. They also have a sense that it is hard to apportion the distinct contribution made by individuals to overall social productivity, and that a surplus emerges from shared effort.

If individuals are the beneficiaries of both chance and interdependence, then the idea that individuals deserve the returns of their individual talents and efforts seems vulnerable. Some portion of that return belongs to chance, and might therefore be shared with those who were less lucky. Another portion belongs to those who aided one's productivity, and ought to be shared with them on some equitable basis. For these reasons (among others) society as a whole might reasonably decide to adjust the results of the workings of the private economy to produce results that seemed more fair and just -- not necessarily in some transcendent sense, but in the more concrete sense that individual citizens thought that there was something vaguely or clearly unjust in the society in which they found themselves.

There is also a category of results that the market cannot be relied upon to produce that have sometimes been called "merit goods."[24] These are goods that are viewed (by some individual or society at large) to be intrinsically valuable, but are not necessarily valued by consumers with money to spend. This could include, for example, education and cultural development -- particularly those parts of education and cultural development that cannot be translated directly into marketable skills. Because these goods are not sufficiently valued by individuals, the private market working alone will not supply enough of them. Yet, because they might be more *valuable* than *valued* -- in the sense that they could improve the quality of an individual's life even though they do not now know that, or because they might improve the aggregate conditions in society by improving the quality of self-government or other important effects -- both individuals and society as a whole would be better off if these goods were provided in large quantities at a subsidized price.

One can learn these things by reading any introductory textbook in public finance. But what is interesting and important is that all these ideas were present in an elementary, imprecise form in the development of the Elizabethan poor laws -- the laws that are often taken to be the social origins of the voluntary or charitable sector. Those laws defined the following purposes as "charitable," and the institutions that provided them protected from taxation:

> the relief of aged, impotent and poor people..
>
> the maintenance of sick and maimed soldiers and mariners
>
> [the maintenance of] schools of learning, free schools, and scholars in universities

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[23] Critics of the justice of the market economy

[24] The idea of merit goods

the repair of bridges, ports, havens causeways, churches, seabanks and highways

the education and preferment of orphans

the relief, stock or maintenance for houses of correction

[support of] the marriages of poor maids

the supportation (sic), aid, and help of young tradesman, handicraftsmen, and persons decayed (sic)

the relief or redemption of prisoners and captives

[the] aid or ease of any poor inhabitants concerning payments of fifteens

It doesn't take much effort to categorize these purposes in terms of: 1) collective goods; 2) re-distributive justice; and 3) merit goods. Apparently, even Elizabethan society had difficulty producing these socially valuable goods, and welcomed the efforts of charitable trusts to supplement the workings of feudalism on one hand, and the fledgling market economy and state government on the other to provide them.

While we have long agreed that there are important public purposes that exist beyond the reach of the market, what particular things should be included has, to some degree, changed over time. Today, having been powerfully influenced by the great liberal philosophers, and by the scientific power of economics, we seem more focused on the problem of correcting the technical failures of the market than on achieving a just and fair distribution of wealth, or producing a dense supply of merit goods to enrich individual and social life. The reasons for this change may not be simply that we have become more selfish or have worse taste. It may also come from an increased love of individual freedom, the celebration of individual diversity, and a recognition of the extraordinary power of the market to both allow and respond to diversity.

The appeal of the market may also be enhanced by the collapse of confidence in the capacity of our *collective* processes and institutions -- politics and government -- to reliably respond to individual citizens views about what constitutes a just society.[25] The big idea that lives on despite our current enthusiasm for the market, however, is some notion of a public good that cannot necessarily be achieved through the market alone, and that may exist independently of what individuals want for themselves. There may still be some important public goods to produce. And it may still be that individuals want things not only for their own consumption, but also to help their neighbors, and that they have ideals of a good a just society that they would like to see realized through the collective institutions in which they are necessarily enmeshed. It may also be that they do not want to live alone as individual consumers, workers, and citizens, but that they like being parts of communities, and acting as though they had important relationships to one another.

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[25] Nye, Zelikow, and King

3. Political/Governmental Failure

To the extent that individuals in society could not rely on market mechanisms to achieve valuable public purposes or supply important public goods, they had to rely on some alternative social arrangements. The obvious alternative, in a liberal society, is politics and government. Presumably, through the particular political processes of a liberal society, individual citizens could decide what important public purposes they wanted to pursue, and what valuable public goods they wanted to produce using the powers of government. Over the course of English history, these political processes have ranged from kingly decree, through debates in parliaments that consisted of hereditary peers on one hand and representatives elected by property owners on the other, to today's popular elections and referenda. Government would then execute these purposes by deploying the powers of government to tax and to regulate. In some cases, this involved creating public organizations with professional and technical expertise to achieve the state's purposes -- the bureaucracy.

The difficulty with politics and government, however, is this: just as "market failures" result in a shortfall in the achievement of public purposes and the provision of public goods, so a political/ governmental failure results in the inability of the political/governmental system to satisfy the expectations and demands of individual citizens for public purposes and public goods.[26] To many individual citizens, the common failure of politics and government is that government fails to supply a sufficient *quantity* of public goods. To them, there never seems to be quite enough resources provided to end poverty, or ensure equal access to high quality medical care, or to make a high quality education available to all.

To other citizens, the political/governmental failure is the inability to achieve the "right" goals, or to produce the "right kind" of collective goods: we produced too many "guns" and not enough "butter;" or provided too many "bread and circuses" and not enough economic discipline or cultural enrichment. Since at any given moment, government policy is always a particular thing, designed primarily to appeal to the "median voter," many individual citizens inevitably find themselves dissatisfied both with the aggregate conditions of their society, and the public policies designed to produce the desired aggregate conditions.[27]

In sum, while the market cannot be counted on to achieve important public purposes and provide public goods, from the point of view of any given individual, neither can politics and government be relied upon to fully compensate for this failure.[28] Because the processes of politics and government are imperfect, and because they inevitably respond only to a portion of the body-politic's conception of what constitutes valuable public purposes, individuals are always dissatisfied with current public policies. From their point of view, the wrong kinds of purposes are being embraced and the wrong polices being pursued.

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[26] I am following the line of argument developed by Weissbrod here.[Weissbrod, 1988 #11]
[27] Median voter theory of democracy. Downs? Shepsle and Moe?
[28] [Weissbrod, 1988 #11]

B. The Third Sector: A Result of Market and Political Failure

These two facts -- that market fails to achieve important public purposes because the institutions are not designed to achieve large, collectively defined social purposes, and that politics and government fail because they cannot satisfy all individuals with their own more or less idiosyncratic views about what public purposes should be achieved -- creates a world in which two important conditions obtain. First, some important purposes that could plausibly be described as public go unachieved. Second, many individuals who have social goals are left with unsatisfied public aspirations. This situation leads to two different kinds of action, and two different kinds of institutions to pursue the neglected public purposes.

On one hand, the condition of unsatisfied, individually held, public preferences leads to direct action by individuals to change aggregate social conditions towards their preferred results through private, voluntary effort. Unable to endure poverty, or illness, or ignorance, they offer alms to the poor, aid to sick, and education to the benighted. Importantly, they *use their own resources to advance these goals*, or supplement their efforts by asking friends, neighbors, and others who share their public concerns for material assistance. This could be described as independent, charitable action to transform social conditions -- an important, widely accepted function of the independent, voluntary, charitable sector of society. Alternatively, citizens can anticipate that they might themselves need help some day, and could band together in various forms of mutual protection societies and insurance schemes. These, too, could be understood as important contributions to the public good, if by creating such arrangements, bad social conditions could be averted, and with that the burden on government alleviated.

On the other hand, the individual dissatisfaction with public policies leads to the creation of political activities and groups that seek to change both the purposes that society had endorsed, and the public policies adopted as the means for achieving those purposes. Unable to endure poverty, or illness, or ignorance, they endorse public policies that would tax citizens for sufficient revenue to wage a "war against poverty," or to support a quality public education system, or to ensure that all citizens received some minimum degree of guaranteed medical care so that access to life-saving, quality medical care would not be rationed solely by the market. This could be described as *political* action designed to change social conditions through the mobilization of a collective commitment to do so, and through the use of government powers to effectuate a result that would be beyond the powers of individuals acting voluntarily alone or in voluntary associations to achieve.

These two different responses to political/governmental failure -- using one's own money, time, and effort action to change social conditions without relying on the instruments of government on one hand, and banding together in political action to change public policy on the other -- could be understood by society as two important social functions made by the "third" sector. The first is the realm of voluntary, charitable action, or mutual support. The second is the realm of political action and advocacy.

To a degree, society *does* recognize both these responses to "political/ governmental" failure as important social contributions of the third sector. The federal income tax code, for example, exempts both distinctly charitable organizations such as Catholic Charities and City Year, and some explicitly political organizations such as the Children's Defense Fund and the National Rifle Association, from federal income

taxation - presumably because they are thought to make an important public contribution that is worth subsidizing in this particular way. Indeed, both the Democratic and Republican parties are also exempted from federal income taxation, and are included in the part of the Federal Income Tax Code in which many other nonprofit organizations find their place in society. And there are many who argue that "advocacy" on behalf of the poor is a crucial function of the nonprofit, charitable sector.

Yet, many citizens (and experts) view the *charitable* role (the decision of disappointed, publicly spirited individuals to make direct, private contributions to changing social conditions without advocating governmental action) as more socially valuable and more unique in defining the role of the third sector than the *political* role of the third sector (the decision of disappointed, publicly spirited individuals to advocate for public purposes). The reason is that the second role seems neither unique, nor necessarily "public-spirited" or "charitable." Indeed, insofar as the second role is aimed at changing public policy, it seems indistinguishable from any other kind of political activity in the society. Insofar as much political activity involves advancing public purposes that are not particularly charitable, politics as a whole might seem disconnected from the idea of charity. And, to the degree that politics is dominated by professional, career politicians, it is not obvious that those providing leadership in the sector are animated by a "cause" rather than the desire for continued employment. So, politics as a whole lacks some of the important characteristics commonly associated with charitable enterprises.

On the other hand, the first role seems both unique and charitable. The individual motivations that animate this first, charitable response lie in individual conceptions of what would be publicly valuable to do. (In this, it is like political action.) But its methods lie in using one's own money, time, and effort to build the roads, provide the care, and encourage the cultural enlightenment that government will not provide, because it has not been politically authorized and provisioned to do so. (In this, it differs from the political sector). Society can be much more enthusiastic about this voluntary charitable role than the political role precisely because it does not necessarily threaten the liberty of other citizens. The public purposes are being pursued through voluntary action taken by individuals and collectives, not through the power of the state to compel everyone in the society to contribute.

To some degree, this view of the third sector that emphasizes the importance of charity over politics may be a legacy of the Elizabethan poor laws. As noted above, these laws represented the first time that society had recognized a set of activities and organizations which could enjoy special social privileges because the activities and organizations represented voluntary contributions to public purposes. But at the same time, these laws anchored our images of this special sector in concepts of *charity* and *public works* rather than in the public support of *politics*.

The fact that the Elizabethan poor laws did not make much of the importance of private contributions to the public work of *politics* (that is, to discussing and deciding what purposes collectively held powers and resources should be used to advance) should hardly be surprising. There simply wasn't much politics then as we would now understand it. The problem of Elizabethan society was how to deal with the problems (and exploit the opportunities) that were emerging as feudal institutions weakened.[29] The

[29] [Hammack, 1998 #54]

economic opportunities associated with widespread trade were becoming apparent, and with that, a more cosmopolitan outlook, and weakened local loyalties. This was, in turn, creating the economic and social problems associated with dislocated individuals who wandered from place to place. Charity emerged (perhaps) as an expression of some combination of a religious commitment to care for the poor through churches, and a kind of *noblesse oblige* that had been part of the social justification for feudalism. Both commitments had to be stretched and abstracted a bit from particular commitments to particularly situated poor and disadvantaged to deal with the uprooted strangers who were moving about the society. In such a world, it was natural to focus on the role of charity in providing the resources and actions needed to deal with emergent public problems that the fledgling state was unprepared to handle. It was also natural to miss entirely the potentially important role that public-spirited organizations might eventually play in a broader democratic politics that had not yet emerged.

But the price of this historical legacy is that it is still hard for liberal societies to see and acknowledge the important role that public-spirited, private organizations play in shaping democratic politics. To the extent we do, we still see it through the lens of "charity." In this view, if the third sector is to be engaged in politics, it *must be the kind of politics that advocates for the interests of the poor.* It can't be any old kind of politics; and particularly not the kind of politics that argues for a limited public commitment to caring for the needy or providing for educational and cultural advancement. Because the sector is defined in terms of its charitable purposes as well as its charitable means, it must be that its political role --to the extent it has one -- is to build political support for charitable purposes: i.e. more re-distributive justice, and more merit goods.

Unfortunately, this position exposes the sector to the vicious right/left politics of the day. In effect, in this particular conception of the political role of the nonprofit sector as an advocate for more collective and merit goods, and more re-distribution, the right feels abused. They counter sometimes by threatening to reduce or eliminate the political role of the nonprofit sector; other times by noting and exploiting the political opportunities the sector provides to advocate for their own vision of a just and prospering society; one that radically restricts the re-distributive role of government.[30]

It may also be true that we fail to emphasize or take much note of the third sector because we don't like politics very much. We particularly don't like *interest group* politics -- even when the interests being pursued are arguably public, non-material interests such as the advancement of human rights or the protection of the environment. Even in the case that the interest groups are pursuing something other than their own material interests, we worry that they are pursuing a wrong-headed, idiosyncratic idea of what the public interest might be.

Indeed, to the extent that the third or nonprofit sector were involved in supporting interest group politics, society might conclude that it was worsening rather than strengthening democratic politics, by making our politics more divisive. For these reasons, to many citizens, it is far better to think of the third sector as a non-political sector, operating alongside the market economy on one hand, and a technically sophisticated and competent government on the other. Its proper purpose is to fill in a few gaps in the overall provision of public goods, or to become an important partner to

[30] Right attacks on the nonprofit sector

government in delivering results that democratic politics authorized government to produce.

So, the argument about whether or not to recognize and support an important political role for nonprofit organizations remains somewhat unsettled. This, despite the fact that many explicitly political organizations are included in the part of the IRS tax code that identifies nonprofit organizations, and exempts them from taxation.

The argument for *including* political organizations, and the political activities of charitable organizations in our shared conception of the "third sector," and yet still not thinking of them as part of the governmental sector, is that they are private organizations that rely only on voluntary transactions to support and maintain themselves. The fact that they have public purposes they seek to achieve does not change that fact. It is also true that such organizations could play very important roles in shaping the quality of our democratic politics -- they provide much of the tissue that links individual citizens to their government policies, and that enable politics not only to be more closely linked to citizens, but also more representative, and more informed than it otherwise would be. To the extent, one wanted to see in the nonprofit, third sector important public purposes, these contributions to the quality of our political life might be important to acknowledge and recognize.

The argument for *excluding* political organizations and the political activities of charitable organizations from our shared conception of the third sector is that while these functions are "public" functions, they are not necessarily "charitable" ones. To the extent that we understand charity to be direct aid to the poor and disadvantaged, political organizations do not necessarily provide that. Further, the political activities of more strictly charitable organizations may distract them from their charitable causes, and raise doubts about their commitment to charity alone. If the third sector is reserved for "charity," these groups do not belong.

C. Forms of Normative Arguments for Supporting the Third Sector

So far, the argument is that society has a relatively simple view of the third sector. This idea begins with the idea that that there are important public purposes to be achieved, and that these will not necessarily be achieved either by the private market or by government acting alone. It goes on to claim that individuals acting alone or in voluntary associations will seek to close the gap between the public purposes they would like to see pursued and those that are now being pursued either by taking direct action using their own resources to bring about the desired conditions, or by petitioning the government to embrace their visions, and engage the powers of the state (as well as their own resources) in achieving them. It is this realm of individuals (acting in larger or smaller, but always voluntary groups) making contributions to their conception of public purposes that constitutes the essential core of the third sector: voluntary contributions to public purposes.

Once conceived in these terms, it seems pretty obvious that such a sector would be valuable to society. Society has lots of needs. Individuals in society have many different ideas about which of these needs ought to be taken as public responsibilities to be pursued using the powers of government. A liberal society is reluctant to use the powers of the state to meet the needs unless many individuals agree that it should do so. Since this is a tough hurdle to overcome, many valuable purposes are ignored. If

someone should come forward voluntarily to meet some needs that he or she thinks are important, the rest of society should be grateful. Perhaps some kind of social recognition and encouragement should be given to those who make these voluntary contributions to public purposes. This all seems eminently sensible, fair, and wise.

It is important to recognize, however, that the arguments for providing some kind of recognition, support, or encouragement to the "third sector" of society can be made in two different normative frameworks. One framework is utilitarian: it focuses on the "good" that the institutions of the sector can do -- both for society as a whole and for individual members of the society. At the social level, we could note, as we did above, the good that a voluntary sector could do in achieving society's overall objectives. It might be an efficient way of collecting resources for public purposes. Instead of having to use the power of the state to compel individuals to give to purposes they do not share, it would mobilize resources only from those who chose to give. It might also be an efficient way of achieving goals because the organizations might be more effective in meeting the needs of a diverse population. This method of argument would find the value of the third sector in the good that the sector did for society as a whole.

We could also apply the utilitarian framework at the level of the individual. We could focus on the good that the third sector does for the beneficiaries of charitable efforts: those who receive the alms, or enjoy the art museums. We could also recognize the value that is created for individuals who contribute: the sense of accomplishment and purpose that giving offers to them as individuals. By summing the satisfaction that both contributors and recipients gained from activities supported by this sector, we could capture the social value of the sector's activities.

The alternative normative framework uses the language of rights and justice. For example, one could argue that an important justification for the third sector is that it provides the mechanisms through which important individual rights can be both protected and expressed. One could say, for example, that charitable contributions and trusts emerge from broad property rights that allow individuals to do what they want with their own money -- including handing it over to individuals or causes that they deem worthy. One could also say that the many mutual benefit, civic, and political organizations that exist in the third sector emerge from first amendment rights to associate and speak about public affairs.

Within this "principled" framework that focuses on issues of rights and justice, one could also argue that the third sector was valuable to society because it strengthened the overall justice and fairness of the society. It made these contributions substantively by responding to the needs of the disadvantaged: those who were the victims of natural disasters, or those who were socially and economically disadvantaged without having to rely on government to do so. But it might also play a role politically by strengthening democratic politics: by representing those who find it hard to participate politically, and by encouraging a more sustained, vigorous deliberation about the purposes that society ought to use the powers of government to achieve.

For the most part, the public discussion of the value of the third sector is carried on today primarily in the utilitarian framework. In searching for a social justification for the sector, it is only natural to talk in terms of the good it does for society and for individuals within the society. Yet, there are two prices that are paid in thinking about the sector primarily in these terms. First, it tends to keep the public discussion of the third

sector focused on its role as a *producing* entity -- not its role as a vehicle for the *expression of desires* to associate and contribute to public purposes. Second, it tends to keep our attention focused at the *social* rather than the *individual* level. This tends to make us pay attention to the formal institutions of the sector, and to miss the potentially important organic connection they have to individuals, and the important role that these associations might play in knitting people together in different kinds of communities.

Thus, the natural frame is to view the third sector as socially useful in meeting a set of agreed upon social needs, rather than as the place where individuals have an opportunity to express and act upon their individually held views of what is publicly valuable to do, or to come together to argue about the purposes for which it would be good to use the powers of the state. Both the utilitarian and the rights frameworks are legitimate ways to evaluate the sector's contribution to society. But it is important, I think, to note that the contemporary discussion has emphasized the utilitarian, and the role that the third sector can play in meeting social needs (conceptualized as the individual needs of the disadvantaged) rather than the individual rights view, and the role that the sector can play in satisfying the desires of individuals to contribute voluntarily to those public purposes they think are important.

D. Forms of Support

The fact that our public discussion of the third sector emphasizes utilitarian concerns may also have an important effect on how we think of the governmental support that is provided to the third sector. Because we live in a utilitarian age, we see support largely in terms of *financial* support. And the most obvious form of financial support is, on the one hand, tax exemptions, and on the other, direct governmental expenditures.

But the financial support that government gives to nonprofit organizations might be much less fundamental than the legal structure of rights and responsibilities it establishes for organizations within the third sector. Indeed, the most fundamental government support to the third sector includes the rights to property that allow individuals broad freedoms to use their money for their own purposes. Given that human nature is what it is, once such rights are granted, some money will be contributed to public purposes -- not as much as to private and familial purposes to be sure, but some. These public purposes might figure particularly prominently in the decisions of wealthy people planning their estates.[31] They might choose to make a distinctive mark on society by backing their ideas of important public purposes with endowed funds.

Important rights also include the important first amendment rights of association and speech. This creates a space within which individuals can gather together to help one another, and to form and express views about how the state apparatus might best be used to help them create a good and just society. It is from such rights that civic and community groups arise. It is also from such rights that more explicitly political organizations emerge.

While the creation and protection of economic and political rights creates the opportunity for the third sector to emerge, society, acting through government, supports the sector with financial assistance. As noted above, this often takes the form of tax

[31] Fremont-Smith

subsidies of one kind or another. (Depending on one's view, this could be viewed as an example of protecting and extensive view of one's property rights rather than providing an implicit governmental subsidy that could be compared to a direct appropriation.) It is important to keep in mind, however, that the tax breaks are not only in the federal income tax. They are also present in the inheritance taxes at federal and state levels, and in the property and sales taxes levied at the state and local levels.

Beyond the tax privileges, government spends appropriated tax dollars on organizations that are part of the third sector. These expenditures take several different forms that are worth distinguishing, however. One form is a "grant" made to a non-profit organization. Typically, a grant comes with fewer or looser strings attached, and with a lesser threat of punishment if the grant recipient fails to deliver some product that was promised. The assumption is that the organization as it is now operating is doing things that are valued by the public, and that the public provides it with funds to continue doing what it is doing. This form of aid accords the organization the highest degree of autonomy.

A second form of direct governmental financial support is a "contract" negotiated with a nonprofit organization to provide particular services that the government would like to purchase. Contracts can be written in many different ways. At one end, they are barely distinguishable from a grant: for example, a contract could be written to "establish and operate a community mental health center" with no further specification of the character, quantity or quality of services to be provided in exchange for the government's money. At the other end, the contracts could specify exactly what is to be produced, in what quantity, and with what qualitative characteristics. The contract could also be more or less explicit about the means to be used in delivering the service, and perhaps even seek to specify something about the qualifications of the employees, or the structure of governance to be used.

It has become customary to view direct government funding as a threat to the autonomy and independence of nonprofit organizations, and to view the contracts that get very detailed about outputs and characteristics of the organization as particularly threatening. Yet, it is worth noting that organizations in the third sector retain the same freedom to contract or not contract with the government that private sector firms retain. No one is forcing nonprofit organizations to sell their products to government. They can choose to do so or not depending on their views of whether the contract is worth it in their own terms.

Of course, they may feel particularly tempted by the money since other sources (such as selling their product to individuals, or asking for charitable contributions are less appealing). Moreover, they may feel entitled to support from government since they are serving such obviously important causes. And this may lead them to chafe under government contract specifications.

But, from the point of view of a citizen and taxpayer, I might very well want the government to establish tough terms to ensure that the purposes that the collective established as the justification for spending tax money are reliably adhered to, and not altered by the more idiosyncratic and untested views of the nonprofit organization. In effect, a citizen/taxpayer might not see much difference between a nonprofit, for profit, or government supplier of a service that the collective has decided to pursue: their only interest is in getting the maximum desired effect from the money expended.

A third form of government support that has not much been noted but might become increasingly important in the years ahead is when government subsidizes a market within which nonprofit organizations are active suppliers. The subsidies could take the form of loan guarantees, subsidized loans, or vouchers. Such subsidies have long been provided in health care, housing and food for the needy. They are becoming more common in education. What is characteristic of this form of governmental support is that while tax dollars are being appropriated to support the purchase of particular goods and services in the interest of achieving re-distributive justice or increasing the supply of merit goods, the decisions about what particular good to buy is being made by individual consumers who qualify for the assistance. From the point of view of the nonprofit organization then, this feels pretty much like earning revenues by selling their products and services in a free market. From the society' point of view, however, one can see these tax dollars as supporting particular institutions within the nonprofit sector, since the tax dollars show up as revenues in their coffers.

The common view of the nonprofit sector tends to see government's aid to non-profits primarily in financial terms rather than in the creation and protection of rights that allow individuals to express themselves in particular ways. Moreover, among the financial supports, more attention is focused on tax breaks rather than direct financial aid. And when direct financial aid is considered, grants and contracts are usually lumped together, and the financial aid provided by government to individuals who then choose to spend that money on nonprofit organizations is typically ignored. Thus, the usual conversation is whether nonprofit organizations deserve the tax breaks that they get; how dependent the organizations are on direct government spending rather than on the other important forms of governmental support; and to what degree the autonomy of nonprofit organizations is threatened by their dependence on government grants and contracts.

III. The Contemporary Controversies

As noted above, there has not really been a broad, sustained, public discussion about the proper role of the nonprofit sector in a liberal society. Since the simple view of the sector was that it consisted of individuals and enterprises that made voluntary contributions to public purposes they and society deemed important, it has seemed ungrateful, perhaps, for the society to look a gift horse in the mouth.

Yet, both society and the third sector itself seem increasingly restive. There is concern, for example, that society is now expecting too much of the nonprofit sector. In a world where government is retrenching and financial support to public purposes is being reduced, the needs of society will prove too heavy for the nonprofit to bear. Individuals will suffer, and the burdens on the nonprofit sector will increase to the point of collapse and discredit.

There is also concern that the nonprofit world is becoming far too commercial in its operations.[32] Its executives are being paid too much. The organizations are being driven more by concerns about financial survival than the achievement of social mission. The non-profits that have moved in commercial directions are now competing unfairly

[32] [Weisbrod, 1998 #44]

with for-profit enterprises in industries in which for profits have long operated, or would now like to enter.[33]

And, there is a continuing concern that the nonprofit world is far too engaged in political activity: that a non-elected network of foundations and think tanks (on either the left or the right) are dominating the political agenda and policy ideas of the country.

Somehow, the bloom is off the rose. On one hand, society continues to look to the potential of the sector to help it solve pressing social problems. Yet, precisely because it is coming to rely more on the sector, the sector is exposed to a more searching investigation of its strengths and weaknesses. On the other hand, society has caught a whiff of the stale aroma of hypocrisy and corruption coming off the sector as a whole. And that has focused society's attention on how to restore its fading virtue. These conditions are leading to an increasingly sharp discussion about the proper role of the nonprofit sector in a modern, liberal society like the United States.

If one wanders into these discussions as a semi-stranger to the field, and listens closely to what is being argued (and sometimes being left unsaid), one can hear the clash of two broadly different ideas about the sector. I will call one of these perspectives the "social welfare paradigm;" the other the "individual rights paradigm." Each of these paradigms has a particular idea of what makes the sector valuable and important to society, and what activities of the sector are particularly desirable. Each paradigm also has an idea about the principal defects of the sector as it now operates, and the principal threats that the sector must ward off if it is to fulfill its important social role. These simple caricatures may not capture the distinctive perspectives of any particular individual, or even any portion of the political spectrum, but they may nonetheless be helpful in stimulating and organizing discussion.

A. The "Social Welfare Paradigm"

The "social welfare paradigm" begins with the idea that there are basic social needs that must be met. These include preventing people from starving or freezing to death, ensuring adequate access to medical care for the sick and disabled, keeping children from being victimized or neglected, providing minimum levels of education, and so on.

An important feature of this view is the tacit assumption that there is an objective way to measure the social needs that must be met. We can count the number of people below an agreed upon poverty level; or the number of people who are denied adequate medical care; or the number of people who are under-educated. This number describes the "gap" between what society should provide to its citizens and what it actually does provide.

A second important feature of this "social welfare paradigm" is that if a "gap" exists between what society should provide and what it actually does provide to relieve the problems that individuals are experiencing, it is up to society to close that gap. It can do so through charitable action. Or, it can do so through a collective commitment to tax and regulate itself to provide the wherewithal to meet the social needs.

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[33] [Gaul, 1993 #45]

In short, in the "social welfare paradigm," neither the definition of social need, nor the decision to accept individuals' needs as a problem for society as a whole to deal with, is considered a *political* decision. "Social need" -- the content, level, distribution, etc. -- is a morally significant, objective fact. The obligation for society to close the "gap" between what individuals in the society need and what society provides is a moral imperative. The price of failing to do so is to tolerate the continuation of an uncaring, unjust, and wasteful society in which individuals suffer intolerably.

Given these objective "social needs" that must be met, society must figure out how the best means to use in accomplishing this task. In principle, this consists both of finding the most efficient and effective means of achieving the desired social result, and of finding the resources necessary to close the gap. What makes the nonprofit sector important to society, in this view, is its ability to contribute to both these objectives -- particularly the challenge of finding the most efficient means for achieving desired social results.[34]

In the social welfare paradigm, non-profit organizations are viewed as particularly efficient and effective in meeting the needs and closing the gap between society's aspirations and its real accomplishments. That particular efficiency and effectiveness in service delivery is allegedly found in several different features of nonprofit organizations.

First, to the extent that nonprofit organizations attract people -- both volunteers and professional staff -- who are motivated by a cause, the organizations may perform better per unit of pay than either for-profit or governmental organizations in which the employees work only for a paycheck or financial security. (Low cost due to volunteer and quasi-volunteer labor)

Second, because nonprofit organizations often emerge organically from the communities and client populations that have the needs to which society is trying to respond, nonprofit organizations may be better able to tailor their activities to both appeal to and be effective in transforming the status of those they serve. They don't have to treat everybody the same way as government is often forced to do. They may know more about the populations they are trying to serve than the private sector knows. The combination of these capabilities may make them far more effective in accomplishing the desired social goals.[35] (More responsive because more knowledgeable, and freer to act on their unique knowledge)

Third, the organic relationships between the organizations and the clients may also increase the effectiveness of the services being provided. This could come from the fact that they are technically well tailored to the problems that individuals face, and that clients appreciate and build commitments to services that seem to be made just for them. In these respects, the virtues of responsiveness noted above would translate into greater effectiveness in achieving socially desired changes in the conditions of clients. But the organic relationships might also provide a kind of informal social motivation and control that adds an ingredient to the overall effectiveness of a program. For example, a program designed to help parents refrain from abusing and neglecting their children might be provided more effectively by a community-based organization -- partly because it was adapted to the individual family, partly because that adaptation built motivation

[34] [Salamon, 1995 #46]
[35] [Smith, 1993 #48]

and commitment within the family, but also because expectations created within the program felt more compelling and legitimate than they would be if the standards were being administered by more distant bureaucrats, or by paid employees of a for profit organization. (More effective because better in engaging clients)

Fourth, nonprofit organizations may have more license to innovate in providing social services that government has. To a degree, one can see this innovation occurring in the individualization of service to clients: since each client is unique, a certain amount of innovation and adaptation has to be done to adapt the standard service to one that fits the individual client. But it might also be true that nonprofit organizations can create whole new approaches to problems that become a new standard program around which individual adaptations will be made in the future. For example, a nonprofit organization might discover that a "sentencing circle" creates more effective results measured in terms of reduced crime and increased victim satisfaction than standard criminal justice system processing. Both of these systems might have had some capacity to tailor individual sentences to differing individual circumstances in the same way that a motor company can produce different models of the same car. But there is still an important difference between the sentencing circle and the court in the same way as there is an important difference between a sports car and a mini-van, or between a car and a skidoo. Non-profits may have this unique capacity to innovate because they are not bound by the disciplines that cut off innovative ideas in either the public or the private sector. They don't have to be sure that something will work, which is the standard that government usually demands. And they don't have to be sure that an initiative can make a return on investment which is what the private sector usually expects. (Innovativeness as distinct from adaptiveness and customization: social r and d, and market finding.)

So far, I have been discussing the ways in which nonprofit organizations might have a technological advantage in producing the desired results at low cost -- that is, as efficient means for producing results once someone has sufficient resources to put into the production. But nonprofit organizations may also be particularly valuable in marshalling additional resources for accomplishing the jobs they take on.

The distinctive competencies of nonprofit organizations in mobilizing volunteer labor has already been alluded to. In addition, however, these organizations might be able to gather other in-kind contributions. For example, the American Red Cross specializes in collecting not only voluntary labor to deal with emergencies, but also clothes, tools, and blood. Or, they may be able to raise money by making appeals to donors.

The capacity of nonprofit organizations to raise charitable contributions is not necessarily much admired in the "social welfare paradigm," since it is widely believed within this community (for good reasons, I think) that this flow of resources cannot be relied upon to achieve the volume and scale that is needed to truly meet society's needs. For that, one may ultimately have to rely on government with its powers to tax. Indeed, when huge amounts of money are needed to launch or sustain a socially valuable enterprise, there may be no real substitute for the efficiency and effectiveness of government taxation. Government can scoop up huge amounts of money, and do so at a relatively low financial cost.

Yet, if we were to do a full accounting of the ways in which nonprofit organizations can help meet social needs, it would have to include their ability to raise

money as well as mobilize volunteers and in-kind contributors. Indeed, compared to government, non-profit organizations may be particularly "efficient" fund raisers. By "efficient" here I do not mean efficient in the sense of the dollars expended per dollar collected (though the non-profits are pretty good on this as well), I mean "efficient" in the sense that non-profits make less use of state authority than government does. When non-profits raise charitable contributions, they attract money from those individuals who *choose* to give, not from all those who are *obliged* to give. This is efficient in the same way that economic markets are efficient: they allow individuals to buy what they want, and not have to pay for things they don't want.

Nonprofit organizations may also be particularly adept at leveraging resources and capabilities through partnerships with other organizations. This kind of capability could emerge as a consequence of the entrepreneurialism and independence that characterizes many non-profit practitioners and enterprises. Lacking much money to organize efforts, non-profit leaders have often been forced to rely on the power of a cause to assemble resources and commitments from others. The style that this necessitates in building their own organizations turns out to be valuable in creating networks of capability cutting across agencies. For example, when it becomes necessary for a city to figure out how to use some combination of agency and community resources to respond to an emergent AIDs epidemic, or an epidemic of youth violence, or to a more general collapse in the fortunes of a city, non-profit leaders and organizations may have the operating style and capability needed to construct a more or less durable community capacity to respond to the emergent problem.

It may also be true that the same things that make nonprofit organizations effective in mobilizing voluntary commitments of resources from communities help make them particularly effective in delivering services to their clients. The reason is that the service recipients will feel in the content of the services they receive a connection to their friends and neighbors who are providing the service. This may strengthen the social relationships (as well as ensure the responsiveness and quality of the service being provided), and lead to much better results than the same service delivered by a more remote bureaucracy. Indeed, it may well be that the distinctions among contributors, governors, managers, employees, and clients that are so obvious and important in for profit firms will blur substantially in some kinds of nonprofit organizations. Those who are contributors one day may become service recipients the next; those who are employees, can become governors and managers the next; and so on.

So, viewed from this perspective, the nonprofit sector has a great deal to contribute to society. It is there to meet needs that are not now being met. It does so by being an effective service provider in partnership with government. It may also make a modest contribution to the mobilization of charitable resources to supplement the resources provided through government.

Viewed from this perspective, the principal contemporary threat to the nonprofit sector is that it will be asked to do too much with too little assistance. This is particularly true when government begins to retrench in providing its financial support, and the business sector reduces its charitable commitments in response to the stiff competitive challenges of an increasingly global economy. In this view, the social needs that are to be satisfied are vast. The resources available to meet the needs are too few. There are simply not enough saints, and the saints are a bit too human to be able to do all the work

required.[36] Those who do the work, and those who voluntarily provide the material and resources will quickly become exhausted and dispirited without more significant support that government can provide. Therefore, in the view of the "social welfare paradigm," it is completely disingenuous to claim that a significant portion of the burden of meeting society's social needs could be met through "charity" alone.

Besides, in the view of the "social welfare paradigm," it is a misreading of the character of the non-profit sector to think that it has ever been very independent of the public sector and government.[37] Government created the non-profit sector by giving it special rights. Government supported it with tax breaks and direct spending. Government has shared in the management of organizations within the sector. Because the nonprofit sector has always operated in concert with government, it is entirely unreasonable for anyone to think that the sector could now take on the substantial burdens planned for it entirely by itself without governmental assistance.

In the view of the "social welfare paradigm," then, the principal challenges facing the non-profit sector are: 1) to develop the resources necessary to support the sector, and 2) to do so by correcting the picture of the nonprofit sector as one that has a close partnership with government. This conception, in turn, gives the nonprofit sector an important political role. A crude version of this is that the nonprofit sector plays an important role in supporting a political constituency for the continued development and expansion of the welfare state: a political constituency that favors an expanded view of what social needs will be met by the state. A more refined view is the idea that the nonprofit sector plays a crucial role in ensuring the representation of un-represented voices. Such representation could be valued primarily in terms of the protection of important political virtues, such as the vindication of the political rights of the disadvantaged. But such representation can also be seen as instrumentally valuable in creating a national constituency for the substantive goal of meeting the needs of disadvantaged citizens as well as vindicating their political rights. That is, one must finally recognize that having a political constituency committed to a broad view of substantive rights to be guaranteed by society is a necessary means to the end of actually delivering on those rights.

There is one additional, minor strand of the "social welfare paradigm" that is worth noting, partly because it ends up dividing many who are otherwise in agreement about the proper role of the nonprofit sector. This strand focuses on the nature of the organizations that can emerge to realize the potential of the nonprofit sector. To some proponents of the "social welfare paradigm," the best organizations are those that are "community-based" -- that emerge organically from the concerns of local people. Such organizations are considered particularly valuable for all the obvious reasons noted above: they might be more efficient and effective in delivering services of various kinds; they might be better in mobilizing resources; and they will enjoy a kind of legitimacy with their clients, and with that, a kind of effectiveness, that other organizations lack.

To others, however, such organizations cannot be fully trusted to do the work. In this view, the amateur, community-based organizations must be able to make the transition to competent professional organizations that are capable of sustaining themselves, of accounting for the resources provided to them and the results achieved,

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[36] Langley Keyes on Saints in the Housing Projects
[37] Dobkin Hall

that are professionally managed and staffed. To become this kind of professional organization, the nonprofit world must be able to pay reasonable salaries to attract first rate people, and they must invest in training. Exactly how the tensions between community-based and autonomous; volunteer and professional are to be balanced in any particular organization remains a struggle both for the organization and those who support them.

An important related issue has to do with whether the organizations should be linked to or disconnected from religious affiliations. On one hand, religious organizations have historically provided much of the impetus behind the creation of important nonprofit enterprises. They continue to do so today. Such affiliation has not only assured the overall scale of the nonprofit sector's contributions to the nation's problems; it has also secured the link between these problems and the thousands of individuals who participate in responses to these problems through their congregations. On the other, there are many adherents of the "social welfare paradigm" who think that the religious organizations, like community-based organizations, carry too much baggage with them to be able to become the efficient, effective, and fair organizations that we need to deal with society's ills. They will be too sectarian: unwilling to take care of those who are not part of their religion, and too eager to use their charity to proselytize for their particular religious views. They will not be professionalized enough to ensure that their services are of high and consistent quality, and that they can be accountable for monies received.

These concerns lead many of those who adhere to the "social welfare paradigm" to prefer larger, more professionalized organizations -- even government bureaucracies -- to either community-based or religious organizations. They want the scale. They want the efficiency. They want the technology and professional training rather than the moral passion. They want the fairness. In short, they want the secular quality of such organizations. That is the only way that the needs of society can be met in a universal rather than spotty way. That is the only way that the rights of individuals to live and worship free from excessive formal and informal social influence can be protected.

In sum, the "social welfare paradigm" views the nonprofit sector as essential to meeting the unmet needs of society. It does so by being an efficient and effective deliverer of services, and an important partner to government in devising the means and delivering the services to those who need them. While it has some role to play in mobilizing charitable contributions, because that stream of resources will always be too small to meet the overall need, the sector's more important contribution lies in the political work of advocating various causes, and making it clear that the nonprofit sector alone cannot be relied upon to meet all of society's needs. While this paradigm sees value in community-based organizations, it remains a bit suspicious of religious organizations, and would prefer both community-based and religious organizations that made the transition to professionally run and managed enterprises to ensure accountability, efficiency, effectiveness, and fairness in the operations of the organizations. In short, in this view, the nonprofit sector should be an important partner to government in the development of a society that is committed to and capable of meeting the needs of the disadvantaged in a fair, efficient, and effective way.

B. The "Individual Rights Paradigm"

The "individual rights paradigm" of the third sector begins in a much different place. In this paradigm, the important justification of the sector lies not in the instrumental value of the sector in meeting some previously defined set of social needs. Nor does it lie in providing the political constituency for a relatively expansive view of the individual needs for which society ought to take responsibility. It lies, instead, in the capacity of the sector to serve as both a vehicle for and protector of the rights of individuals to have their own ideas about what a good society consists of, and to act on those views. The right and capacity to act on their views comes in the first instance from the existence of property rights that allow them to spend their own money for their own purposes -- including the right to give it away to charitable causes or political campaigns. It also comes from their right to associate with other individuals with whom they can make common cause -- either in the service of one another, or in efforts to help others, or in efforts to shape the public policies that govern their lives. In this view, the nonprofit sector is not committed to any particular substantive conception of society's needs that have to be met. It emerges, instead, from what individuals think would be desirable to do, and the actions they take to advance those ideas -- both directly through charitable initiatives, and more indirectly through political mobilizations aimed at influencing government purposes and policies.

Note that in many countries emerging from totalitarian regimes of either the left or right, the idea that individuals have political rights, and that these constitute the roots of civil society, creates a social and political space that did not previously exist. Often, underground opposition parties, driven by individuals' desires for liberty and justice, emerge into the sunlight when a small crack of liberty is created. In these situations, the non-profit sector is often understood, then, not as charity, but as the agents of liberty, and the wellsprings of democratic politics.

In this country, where we have long enjoyed the kind of political liberty that other countries are still trying to achieve, the "individual rights paradigm" is focused less on the political role of the nonprofit sector, and more on the ways in which the expression of the important individual rights can contribute to the overall strength of the society. Here, the individual rights paradigm draws its strength from the usual arguments for individual liberty and freedom of expression.

Note that the support that a liberal society gives to a voluntary third sector can be seen in many ways as the apotheosis of a liberal society's commitment to individual liberty over collectivism. After all, one might assume that if there is anything in society that must be collective, it would be the definition of a "public purpose." Surely, the public, understood as a collective, would be insistent on its right to define what is publicly valuable. Yet, what is remarkable about the voluntary sector in a liberal society is that the collective cedes to individuals the right to conceive of and act on behalf of a conception the individual claims to be publicly valuable. Of course, the purpose has to fit within the statutory framework that defines the kinds of activities that nonprofit organizations can engage in, and those things for which they can receive different kinds of tax relief. But in reality, these guidelines are very broad. In these respects, then, this individual rights paradigm establishes the right of individuals to define public purposes in whatever idiosyncratic ways they wish.

In the extreme form of this argument, one can argue that it is best to leave even important *public* purposes to individual private initiative. The reason is that government and collectivism discourage individual initiative and freedom of expression. Initiative and freedom are good in themselves -- things that individuals who exercise them can enjoy. But they are also instrumentally valuable for society at large. Initiative and freedom produce variety -- both in conceptions of what purposes society should take on, and on the best ways of accomplishing those goals. Variety, in turn, is valuable because it increases the chance that individuals will find something that they value in the ideas of social entrepreneurs, and that new, more effective methods will be found for accomplishing desired results.

In this conception, individual, expressive philanthropy is a potentially powerful engine for dealing with social problems. So are faith-based organizations and community groups that take responsibility for themselves. Indeed, in this conception, one might become concerned that the potential of these voluntary contributions to public purposes could be obliterated by a large public sector that sucked resources from individual philanthropy in favor of collective agreements about desirable social purposes. One potential consequence of this is bland, ineffective, and unresponsive efforts to deal with social problems of various kinds, and a failure to create the conditions under which individual initiative to deal with public problems could flourish.

In sum, the "individual rights paradigm" values the voluntary sector from an individual rather than a social perspective; it defines the sector in terms of the source of its resources and energy rather than in its substantive purposes; and it sees the value of the sector in its expressive terms rather than in its ability to produce particular substantive results. It celebrates the right of individuals to decide what purposes are important public purposes, and to pursue these ideas on their own. It favors private initiative in defining and acting on social purposes both as a matter of right, and because such efforts are judged more likely to produce important new ways to act on social problems. It is suspicious of a government that is too large, or a nonprofit sector that is in too close a partnership to government, because such trends move society towards collectivism. Its worry is that the voluntary sector is losing its independence. Rights are being restricted. Individualism is yielding to the collective. It is important to stop these trends. It is important to vindicate and celebrate these individual rights, and the variety in social aspiration they can create.

C. The Communitarian Paradigm

A third conception of the value of the voluntary sector could be described as the "communitarian paradigm." In this conception, what is important and valuable about the voluntary, third sector is that it provides a space within which individuals can combine in voluntary associations. They can find one another, learn that they share ideas about what could and should be done collectively, and organize to achieve these ends. In doing so, they can develop a kind of "social capital" that they can enjoy and use as individuals, and that also serves to strengthen the capacity of the society as a whole for both civic and political action. In this conception, what is important about the nonprofit sector is that it connects individuals to one another and to larger social structures through the support and creation of "mediating institutions."

[More to Come Here]

IV. Towards a Contemporary, Normative Vision of the Third Sector

Reflection on both the conventionally held idea of the nonprofit sector, and the current controversies suggests some important purposes that society -- understood both as an aggregation of individuals and as a collective -- might want from a vital "third sector."[38] These include the important ideas from the left -- that the sector might increase society's overall capacity to understand and respond to a broader or narrower definition of social need. They also include ideas from the right -- that individuals have rights to dispose of their property as they wish, to express their values in both religious and communal organizations, and that civic organizations can make a great contribution to the public welfare through direct action as well as through politics and government. And they included ideas from the communitarians: that society might benefit from the development of social capital that could be deployed in civic and political action. The important normative ideas include some values that are good in themselves and should be protected by a liberal society as rights, and other values that are instrumentally valuable to particular individuals or to the achievement of broader social objectives. My aim in this section is to lay these ideas out as comprehensively as I can so that we can see the full array or normative claims made on behalf of the third sector.

A. Individually Based Justifications for the Third Sector: Self-Expression in Communal, Charitable and Political Realms

A contemporary view of the value of the nonprofit sector has to begin, I think, with the value the sector has to those individuals who create the initiatives and organizations that constitute the sector: that is, with the social entrepreneurs, and those who contribute to their causes. A liberal society values such actions as a form of self-expression important enough to be considered an individual right; and as a source of individual satisfaction and utility to those who participate. Let's consider each of these arguments -- that the third sector has value as a place where rights can be expressed, and that it has value as a place where individuals can gain personal satisfaction -- in turn.

1. The Right to Freedom, Self-Expression, and Civic and Political Action

Liberal societies have long recognized fundamental civil rights to speak, to associate, to worship, and to own and dispose of private property -- in short, to live in political and economic freedom.[39] Such rights have been recognized as "natural rights" that all individuals have as a natural consequence of being human. They have also been justified as conditions consistent with the goal of "human flourishing" -- as things that are valuable for (and, ideally, valued by) individual human beings. And they have been defended as conditions that are important to creating a competent democratic community. In effect, there are deontological, individual utilitarian, and social utilitarian justifications for the creation of these rights.

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[38] Many of the points to be made in what follows can also be found in [Nielsen, 1983 #36]

[39] (Note: The idea of freedom here includes Hannah Arendt's non-libertarian view that the most important kind of freedom is not just individual self-expression and freedom from governmental interference, but also the kind of freedom that is produced by participating in the arduous task of self-government.)[Gardner, 1998 #1]

Whatever their justification, once an architecture of such rights is established, the social conditions required to spawn a vigorous voluntary sector are created. All one needs to add are a particular set of individual preferences. Suppose that individuals (living either in a "state of nature," or, more particularly, in the context of a liberal society in the late 20th century) had preferences and aspirations that included something more than desires for their own material welfare. Suppose that they enjoyed one another's company, or were willing to recognize and act on their own interdependence.[40] Or, suppose that as individuals, they had ideas about how they would like society to be organized, and what material conditions they would like to see realized in society.[41]

If individuals had preferences like these; and if rights to speak, to associate, to worship, and to expend effort and wealth on causes that individuals considered important were protected by the institutions of liberal societies, then an independent, civil sector would naturally arise. The Orange Hats of Fairlawn would spring up to keep drug dealers off the streets of Washington, D.C. The Shriners would get together to wear red fezzes, drive miniature cars in formation, and make contributions to hospitals for children with burns. The League of Women voters would emerge to produce information about candidates, their positions, and where citizens needed to go to vote. The Bradley and Ford Foundations would arise to serve public purposes their boards thought were publicly important to pursue.

In short, all the particular institutions included within our vision of civil society and the nonprofit sector would emerge within the social space created by the rights guaranteed above. The sector would be fueled by the communal, charitable, and political motivations described above. It would be given the space to exist by the social guarantees.

This third sector, in turn, would be valued by society as the natural result of the expression of individual rights. Nothing more would have to be said to justify its existence. Little more would be expected of it.

This, it seems to me, is the most fundamental and simplest normative justification for the nonprofit sector. In this view, society as a collective simply accepts the existence of the nonprofit sector as inevitable result of guaranteeing certain kinds of individual rights in the presence of certain kinds of human preferences. We celebrate the nonprofit sector as tangible evidence of the expression of those rights, and the existence of those special preferences. We have no purposes for the sector other than to provide a convenient channel for the expression of these rights.

2. The Individual Utility of Self Expression, Charity, and Civic and Political Action

Closely related to the idea that the third sector is valuable to individuals as a vehicle for the expression of their rights is the idea that the third sector is valuable because it satisfies certain kinds of preferences and desires that individuals might have. This view claims that when individuals exercise their rights to express themselves in social, charitable, and political ways, they take satisfaction in doing so; further, that that individual satisfaction registers in the overall welfare of the society. In this view, it is

[40] This is what James Q. Wilson calls "solidary incentives." [Wilson, #43]
[41] This is what James Q. Wilson calls "purposive incentives." Wilson, Political Organizations

enjoyable for individuals to join together in civic associations, to worship in churches, to make charitable contributions, and to express themselves politically. The fact that such events are solemn and earnest, and that they are often undertaken to help others, does not detract from the fact that the individuals engaged in them often take pleasure in them.

Of course, there has been a long debate about whether any act can be truly charitable, or truly motivated by political ideals.[42] To many, all *charitable* acts are inevitably tainted by the pleasure the contributor takes in his own charity, or in his selfish contemplation of the glow of approval he expects from his fellow citizens.[43] Similarly, a *political* act is a bit tainted by the arrogance associated with the claim that one knows what is best for society as a whole, and the worry that the motivations might be for individual power and self-interest rather than for the public good.

But, to a utilitarian or a welfare economist, the fact that individuals take pleasure in their own charity and political leadership *adds* rather than detracts from the social value of the act. Not only is the object of the charity benefited by the charitable gift, but the giver is made happier as well: e.g. the blood donor feels good about giving; the accident victim feels good about receiving. Individual pleasure (and therefore social value) is created at both ends of the charitable transaction. A similar happy effect occurs in the political realm: not only does a democratic polity gain from the fact that individuals exercise their political rights (and therefore more reliably produce the public policies that correspond to the individually held aspirations of citizens), but the individuals who exercise their rights enjoy the experience of doing so.

In this accounting, an important reason to value the nonprofit sector is not only for its ability to deliver services to the objects of charity, and to improve the quality of democratic politics, but also for its ability to deliver pleasure to the donors. In the charitable realm, this pleasure comes from the charity's capacity to reliably convey, and also to leverage the small contributions made by individuals into far larger and more significant social effects than any individual donor could achieve on his own. A person, sitting in their living room in Des Moines, Iowa, swept up in the tragedy of Bosnia, may wish to make a contribution to relieve the suffering. Acting on their own, they could do little. But acting in concert with an international relief organization, they can not only conveniently send aid, but also have their aid multiplied by the contributions of others into a sizable contribution that could register an effect. In the political realm, the pleasure comes from the satisfaction of registering one's views about what constitutes a good and just society. While one might reasonably be skeptical about how much individual satisfaction can be taken in political action, the scenes of Black South Africans openly weeping for joy as they waited in long lines to cast their ballot in the first election open to them reminds us of just how easy it is to take the pleasure of self-governance for granted. In effect, personal satisfaction -- utility -- is created in the charitable, civic, and political realms as well as in the domestic consumption realm.

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[42] [Jencks, 1990 #28][Sen, 1990 #38]

[43] (Note: the fact that individuals might actually enjoy the experience of being perceived as virtuous is, itself, an indication of precisely how social human beings are. The sociability is evident in: 1) the fact that there is enough social agreement about what constitutes a virtuous act that an individual can reliably gauge whether a particular act will earn him moral praise or recrimination; and 2) the fact that individuals might be motivated to behave in the desired ways because they want to have the good opinion of their fellows.)

One of the important consequences of crediting nonprofit organizations with producing happiness for donors and contributors as well as for clients is that the scoring system for such organizations is changed. We still view them as *producing* organizations, responsible for achieving results in the world. But we also think of them as *expressive* organizations, whose value lies in satisfying certain kinds of preferences.[44] In doing so, we make the organizations that provide convenient opportunities for satisfying these preferences -- the American Red Cross, the United Way, the Children's Defense Fund, Greenpeace, and the National Rifle Association -- as important to social welfare (understood as the maximization of individual utility) as the commercial enterprises that meet individual demands for material goods and services. They meet the needs and satisfy the desires of individual "consumers." The "consumers" just happen to have tastes for social, charitable, and political goals rather than soap and automobiles.

Of course, to many, treating the social, charitable, and political goals held by individuals as equivalent to the desire for soap and automobiles demeans both the preferences and the organizations that channel them. The desire to help the poor, to protect human rights, to spread culture in the society are more noble (i.e. more virtuous and socially attractive) desires than the desire to have more luxurious cars, or "fresher" soap. To the extent that we view such motivations as "higher" motivations, it may seem demeaning to treat both kinds of motivations equally as individually held preferences. But, to those who want to make moral distinctions among different kinds of motivations and preferences, it is important to remember that to the extent that we enter into the normative world of utilitarian ethics, the consequence of viewing the satisfaction that individuals take in communal, charitable, and political expressions as a kind of preference that is being satisfied is to *increase* the overall social value of this sector, not to demean it. In this utilitarian world, it is only individuals that have the right to value things; and it is only their satisfactions that count in social utility.

B. Social v. Individual Justifications for the Third Sector

What is offensive to many about the individual justifications for the nonprofit sector presented above is that they are too individually based, therefore too selfish and not sufficiently "other directed." The arguments for individual *rights* sound legitimate because they are rooted in social claims about what the collective owes to individuals, and because they can be seen as important in creating a kind of collective social life that recognizes the autonomy of individuals.

But the idea that the rights described above are valuable because their existence and use is "enjoyed" by individuals seems to undermine their moral quality. The claim that individuals enjoy making charitable gifts and expressing themselves politically, and that the organizations that provide channels for the expression of these desires are therefore creating value in the same way that market enterprises do, seems to convert a profoundly social act into a private, economic transaction. This claim does not give enough standing to the idea that individuals might want things for others, and that the

[44] This distinction is related to but different than the distinction that Hansmann makes between donative and commercial organizations. He focuses on sources of revenues. I am focusing on where utility is created. Presumably donative organizations produce utility on the donative side as well as the client side. Commercial organizations produce value (in the form of consumer surplus) on the client side).

moral standing of wanting things for others is different, more social, and more virtuous than wanting things for themselves. Perhaps as or more importantly, they do not give enough weight to the idea that individuals might *combine in collectives to act for a commonly defined purpose, and that that purpose would have a different moral quality precisely because it was the purpose of a collective rather than a simple summation of individual desires.*

For many who value the institutions and processes of civil society precisely because they have a *social* character not only in the preferences that individuals have, but also in the way that those preferences are combined, it is generally more palatable to find the normative justification for the sector in the claim that the sector is good for society as a whole; not just for individuals who want to express their rights, or enjoy giving gifts. Further, they want to believe that one of the reasons is that the civil sector is good for society as a whole is that it allows for the expression of, and therefore encourages the cultivation of, individual commitments to concrete others, and to the wider purposes of society.

Note that these arguments are generally expressed as *utilitarian* arguments. They address themselves to the value that a particular set of institutions and processes has as a means to some particular, specified social ends. What distinguishes them from the utilitarian arguments made above, however, is that these utilitarian arguments focus on the utility of a particular set of institutions and processes not to individuals, but to society as a whole. They are made at the *social* rather than the *individual* level.

Note also that the aggregate social result to be aided by the existence of the third sector could be characterized in at least three different ways. First, the goal could be to maximize the summation of the individual preferences of members of the society -- the greatest happiness for the greatest number that society could produce. This is the standard set by the general idea of utilitarianism, and the more particular idea of welfare economics. Second, the goal could be to assure the protection of the important rights associated with a liberal society such as the protection of rights to speak, associate, and worship. In this view, the end of society should not be viewed as the production of a particular set of substantive results, but instead as the protection of individual rights whose protection not only establishes the conditions that allow a market economy and democratic political processes to perform well, but also ensures the overall justice of the society. Third, the goal of society could be understood as the achievement of collectively defined particular ideas about the substantive results that society might try to achieve such as reduced poverty, improved health and education, or the elimination discrimination. Regardless of which of these kinds of purposes are understood to be the ends of society, utilitarian arguments are made about the value of the nonprofit sector in helping to achieve them.

C. The Individual and Collective Utility of "Social Capital"

One important version of this argument is that the activities and institutions supported by the "voluntary" sector help to build what Robert Putnam has characterized as "social capital."[45] Putnam defines "social capital" in terms of "networks of reciprocity and trust" that exist among individuals in a community, a polity or a society.[46] He argues

[45] [Putnam, 1993 #49]
[46] Ibid

that there is important empirical evidence indicating that social aggregates perform better when they are heavily marbled with the "networks of reciprocity and trust" that constitute "social capital."[47] To the extent that the institutions of the nonprofit sector help to build "social capital," then, they might be considered socially useful, and therefore deserving of public support.

1. The Relationship of Social Capital Building to the Third Sector

There are several important things to note about this argument, however. First, it is by no means clear either that all the "social capital" built by society is created in the nonprofit sector. Lots of "social capital" is built in families and workplaces and political campaigns as well as in the voluntary sector. Lots of the "social capital" that is built in communities never reaches the level of formalization that we sometimes require to consider something part of the nonprofit sector. So, there are lots of "social capital building" activities that lie outside the boundaries of the formal, and even the informal nonprofit world.

Nor is it clear that all the institutions and processes that make up the nonprofit sector are effective in building "social capital." For example, to the extent that an organization that begins as a community-based development organization gradually transforms itself into an efficient housing construction company that has lost its connection with the aspirations of community residents, it may have reduced its capacity to create social capital. To the extent that a credit union among street vendors transforms itself into a "micro-lending" institution that can earn competitive financial returns by lending at above commercial rates to small businesses, it, too, may have reduced its capacity to produce social capital. (Though note influence of system in which borrowers are accountable to one another.) When a group of women originally created to provide help and assistance to one another as they faced the terror of contending with abusive husbands is transformed by a government contract into a state-wide "hotline" for abused women that receives no calls because the women who call lose control over the handling of their case, then some capacity to create social capital has been lost.

[Note that these examples suggest at least one reason why those who wish to defend the special social contributions of the nonprofit sector might be alarmed by both trends toward "commercialization" on one hand, and trends towards increasing government reliance on nonprofit organizations to deliver services on the other. When nonprofit organizations are drawn away from having to sustain volunteer energy by economic inducements offered by market or government, they may stop being the channel of individual aspiration that is one of the justifications for such enterprises. They may also stop acting as the crucible within which some important kinds of social capital are created -- thereby undermining a second important *raison d'etre*.]

So, the nonprofit sector does not have a monopoly over the creation of social capital. Nor is it certain that all nonprofit organizations help to build social capital. Consequently, even if one is enthusiastic about enterprises that build social capital, this does not necessarily translate into a general and exclusive enthusiasm for the nonprofit sector, and the organizations and processes that comprise it.

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[47] Ibid

2. Good and Bad Social Capital

Second, we also have to recognize that "social capital" is not necessarily good in itself: there may be "good" and "bad" forms of social capital. It seems natural, for example, to distinguish "good" social capital from "bad" in terms of the substantive purposes embraced by a particular association. An organization like the Aryan Brotherhood whose purpose is to establish white supremacy could be considered less socially valuable than an organization such as the National Council of Christians and Jews whose purpose is to promote religious tolerance. The Mafia, committed to extortion, theft, and the sale of illegal goods and services, might be considered a worse form of social capital than the Prison Fellowship that is committed to the rehabilitation and redemption of criminal offenders.

It also seems natural to distinguish good social capital from bad in terms of the means used by the organizations in advancing their social purposes. Organizations committed to using violence and extortion on one hand, or deception and propaganda on the other could be considered less desirable pieces of social capital than those committed to persuasion, education, or the encouragement of public deliberation. Organizations that had both undesirable aims and coercive and deceptive means would be less desirable than those that had both desirable goals non-coercive and honest means.

Of course, we all understand that there is a broad continuum here. We also understand that a liberal society is committed to resisting the temptation to use its authority to suppress individuals who seek to associate except in the most demanding circumstances. We did, after all, let the Nazis march in Skokie. We did so not because we liked the kind of "social capital" the Nazis were creating, but because we respected the rights of individuals to associate, and believed in the ultimate social utility of the "marketplace of ideas. Presumably, it is not inconsistent to hold all the following views simultaneously: that the Nazis had a right to march, that the individual members of the organization took pleasure in the action, and that the social capital created by the Nazis was less valuable to society than the kind created by the Children's Defense Fund, or Mothers Against Drunk Driving. After all, giving out rights that protect freedom does not oblige either individuals in the society or society as a whole to approve equally of everything that happens within the context of freedom. It only prevents us from using state power to attack the things that do not please us when the activities are protected by important rights.

A less familiar way of talking about the distinction between "good" and "bad" social capital is not to focus on substantive purposes and means relied upon to advance those purposes. The focus, instead, is on whether the "networks of reciprocity and trust" created by the enterprise cut across natural divisions in society, thus blurring the distinctions among different groups; or whether they parallel the natural divisions in society, thus hardening the divisions in society. The first kind of social capital has been characterized by the Saguaro Seminar as "bridging" social capital; the other kind "bonding" social capital. The argument within that group has been that "bridging" social capital is more valuable to society than "bonding" social capital. The reasoning is as follows.

Suppose it is true that individuals naturally differ from one another in their cultural beliefs and tastes, in their political views, in their material condition, and in their moral

values. Suppose further that while some of these individual differences are present at the moment that individuals are born, the experience of living in society tends to deepen and harden the differences. Such hardening might naturally occur if individuals had a natural tendency to associate with those who resembled them rather than differed from them. The rich would associate with the rich, the educated with the educated, the whites with the whites, the suburban with the suburban, etc.

Now, there may be nothing wrong with the desire of birds of a feather to flock together. Indeed, there may be important reasons for a liberal collective to decide to protect individual freedom to associate in precisely these ways if that is what individuals want. There may even be some important individual satisfactions and social benefits created by "bonding" social capital. But, while one can easily agree that the state should not necessarily make a great effort to prevent this from happening, one can also agree that society might be better off if some of these divisions could be bridged, and some of the distinctions softened; that is, if the state were to emphasize bridging over bonding social capital.[48]

Part of the reason for this is linked to the desirability of what political scientists call "cross-cutting cleavages."[49] If my opponent on issue "a" is my ally on issue "b," then I will have to be little more accommodating on issue "a" than I otherwise might be. If, on the other hand, my opponent on issue "a" is also my opponent on issue "b," and on issues "c," "d," "e," and "f" as well, then I might be inclined to view my opponent on issue "a" as a terrible person who ought to be destroyed rather than persuaded or accommodated. If political actors throughout society find themselves sometimes opposed and sometimes aligned with other actors, then society as a whole might be more stable than if political actors always confronted the same enemies. What is true in political life might be equally true in civil life. If I am always at odds with my neighbor, I might gradually wish him or her ill. If sometimes we are allies and sometimes opponents, then I will be less inclined to act ruthlessly against the interests of my neighbor. In this way, "bridging" social capital might help to add stability to a society.

A slightly different argument for preferring "bridging" over "bonding" social capital is that the more "bridging" social capital exists, the easier it may be for *individuals* to approach the state of mind that the philosopher John Rawls thought was consistent with acting as *citizens*: that is, imagining and willing the creation of just social institutions and public policies.[50] In his *Theory of Justice*, Rawls focused on answering the question of what kinds of "basic institutions" in society could be considered to be just. He proposed the idea that just institutions were those that would be chosen by citizens of the society under a special condition: namely, that they remained ignorant of the particular position they would occupy in the society. He described this condition as one in which individuals had to choose behind a "veil of ignorance." Because they could not know what particular position they would occupy, they would be forced to choose those social arrangements that they could consider fair no matter what particular social position they occupied.

Rawls was careful to say that his argument applied only to basic institutions, not necessarily to particular policies. Moreover, he was also careful to say that the situation was a hypothetical one; not something that could be reliably produced in the world. But it

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[48] Reference to School Busing here. Anthony Lucas book, Common Ground
[49] Reference to cross cutting cleavages
[50] [Rawls, #52]

might not be entirely inappropriate to extend his arguments to cover public policies as well as basic institutions; and to consider the social conditions that might move us toward the position that he thought would allow just choices to be made. For example, I have found it very useful to ask people to consider the question of what kind of police force, or sentencing scheme, or prison system they would choose if they did not know whether they would be an offender or victim, taxpayer or inmate. The reason this question is so powerful is that it reveals how powerfully influenced we are by our own particular position in society. Most people find it easy to imagine themselves as victims or taxpayers; hard to imagine themselves as offenders or inmates. Yet, if justice is to be served, according to Rawls, one would have to imagine himself as offender and inmate as well as victim and taxpayer, and choose a system that would allow him to feel fairly treated in each of these different roles. That is what the consciousness of a citizen requires.

If this is the consciousness required of citizens, it is easy to imagine that "bridging" social capital would be preferred to "bonding" social capital. In this view, we all need the concrete experiences with those different from ourselves to sense their humanity and worth, and with that to include their interests and concerns in what we would will for the society that included them. If we stay isolated in our homogenous communities, it will be easy for us to come to believe that the views held within that particular community are both objectively true and universal, and that those who disagree are either ignorant, or special pleaders, or badly motivated, or evil. They cannot be conscientious citizens because they are disagreeing with something that is so clearly and objectively true. In that situation, it will be easy for a real political community to do injustice by failing to recognize that it is only "six degrees of separation" that divide us; not a vast chasm between the virtuous and the less virtuous; those who can see and speak the truth, and those that are caught up in self-serving lies.

Still, while one can make an argument for the greater virtue of "bridging" over "bonding" social capital, it is important to recognize that there are important political differences on this issue, and that some social capital (even of the bonding type) may be better than none. Indeed, it is interesting that the members of the Saguaro Seminar divided on this point. The political differences became quite clear when Putnam asked the members of the Seminar how they would respond to the following hypothetical. "Suppose," he said, "that I could wave a wand over society and change it from a society of isolated individuals to one that was rich in social capital. How many would want to use that wand." The answer was unanimous. The members thought that a society rich in social capital was better than one with little.

Then he posed a different question. "Suppose," he said, "that actually I had two different wands. One was a gold wand that not only created lots of social capital, but also lots of *bridging* social capital. The other was an aluminum wand that created lots of social capital, but mostly of the *bonding* sort. Suppose further that I could only wave the aluminum wand -- the gold one was out of order. Should I go ahead and wave this want even if it doesn't produce bridging social capital?" The answer to this question was less clear and unequivocal.

Some in the group who seemed to think that the aluminum wand was almost as good as the gold wand. They thought there was a great deal of value in the kind of social capital that is created within families and communities that choose to be together. There might be some additional value in the kind of social capital that was created by having to

live together in an involuntarily created polity that included many differently situated individuals, and that had to decide together how it would be governed. There might even be some value in the social capital that could be generated from recognizing our increasing global interdependency. But as the relationships stretched across these boundaries, they became less psychologically and morally important and less valuable to individuals and society. Indeed, in their view, as these bonds to others strengthened, they began to threaten freedom.

Others in the group had a different response. They liked the fact that the aluminum wand would create social capital where none previously existed. But they thought that *bridging* social capital was much more valuable than *bonding* social capital. Indeed, some worried that a society had a great deal of *bonding* social capital might be *worse* than a society in which no social capital existed, only isolated individuals. They saw so much potential for conflict and injustice -- for the domination of the weak by the strong -- that they would vote for *no* social capital if it was only of the *bonding* type.

This dispute within the group raised the important question of what relationship existed between *bridging* and *bonding* social capital; that is, was there any reason to believe that the creation of *bonding* social capital would somehow call into existence more *bridging* social capital. Interestingly, the group thought that such mechanisms *did* exist. The mechanism lay in the need for social groups to cooperate either in civil or political space. Once *bonding* social capital existed, the groups would begin to bump into one another as they tried to make the society more to their liking. The consequences of that would be to force at least the leadership of these groups to see things from the perspective of other groups in the society, or risk failure in trying to reach agreements. That, in turn, might allow members of the divided groups to begin to move across the "degrees of separation" that divided them, and made them opponents and antagonists.

This view is more sanguine than I am prepared to be about the potential of *bonding* social capital to create *bridging* social capital. But my skepticism about the extent to which *bonding* social capital can create *bridging* social capital tends to increase the value that I would attach to bridging relative to *bonding* capital. To the extent that the nonprofit sector can increase the amount of social capital that exists in society, it may be creating a great deal of social value. To the extent that it can increase both the absolute amount -- and perhaps even the share -- of *bridging* as opposed to *bonding* social capital, however, it will be contributing even more.

This may seem like an excessively abstract discussion that has little implication for the concrete operations of real nonprofit organizations. Yet, in teaching the leadership of the American Red Cross, the question of how much the organization ought to value the development of bridging as opposed to non-bridging social capital has arisen several times in interesting circumstances. One such concerned the question of whether, in its efforts to attract blood donors, the American Red Cross should emphasize that the blood it collects will be used locally, or explain the truth which is that the blood will be circulated nationally and even internationally to areas where it is most needed. The ARC believes that individuals feel more closely connected to their local communities (a form of bonding social capital), and therefore, that if they are to succeed in attracting donors on a voluntary basis, they have to appeal to these desires to stay locally connected. On the other hand, if society looks to nonprofit organizations to help create the civic imaginations associated with bridging social capital, we might look to the ARC to help those in Peoria come to identify with those in Chicago or Guatemala.

D. Strengthening Democratic Political Processes

The section above made two arguments. First, that the voluntary sector might play an important role in creating social capital. Second, that the creation of social capital might, in turn, strengthen society's overall performance in satisfying individual aspirations, in guaranteeing the individual rights associated with a just society, and in helping society achieve collectively defined substantive purposes.

To a great degree, this claim shades into a different kind of argument for the social value of the voluntary sector: namely, that the nonprofit sector can play an important role in strengthening the quality of democratic political processes that are the principal devices that a democratic society uses to define its goals. After all, the claims for the importance of social capital include ideas that are important to the quality of democratic politics. For example, the idea that individuals might find solidarity with one another forms one of the important ideas about how experiences that are at first defined as individual problems gradually come to be understood as social and political problems that need to be dealt with at the social or political rather than individual level.[51] Similarly, the idea that non-bridging social capital is valuable because it helps individuals empathize with the experience of individuals much different from themselves is an argument about how the creation of social capital might help to create the conditions under which democratic political processes could function well.

Yet, one can make a relatively clear distinction between the idea that the nonprofit sector is valuable because it helps to create social capital from the idea that it is valuable because it strengthens the quality of democratic political processes. The reason is that social capital is valuable in what might be called *civic* as well as *political* action. By civic action, I mean actions that are undertaken voluntarily to achieve public purposes outside the frame of politics and government. This could include various "self-help" efforts undertaken at neighborhood, city, or national levels; for example, efforts taken by hard-pressed urban churches to stem the epidemic of youth violence, or the creation of a "recovery movement" that supports a dense network of self-help meetings for recovering alcoholics throughout the country. They could also include actions that incorporated political processes and government entities as part of the effort: for example, a concerted effort by grass roots community groups, businesses, local foundations, and government to enhance the social, economic, and political development of a city that is falling apart such as Cleveland Tomorrow. These are civic rather than political actions because they depend either entirely or a great deal on *voluntary* action as well as *governmental* action to deal with public problems.

Political action, in contrast, is more concerned about claiming the use of the powers of government -- the authority to tax, and regulate -- to accomplish particular purposes. The most prominent form of political action, of course, are political campaigns in which individuals, usually associated with political parties, seek election to offices that have the right to exercise the powers of government. Important as candidate elections are, however, it is important to keep in mind that there are many other forms of politics, if politics is broadly understood as efforts made by citizens to influence how the assets and powers of government are to be used.[52] For example, politics extends to the many

[51] This is always an inspiring moment in politics. See Voting Rights Act case.

[52] Verba, et. Al. Lindblom, the Policy-Making Process

ways that citizens and groups participate in policy-making processes of government: in lobbying and appearing before legislatures, and in doing the same things with respect to administrative agencies considering matters as diverse as approving drugs for medical use, or accepting a plan for the economic development of a piece of property in a community. In my definition, politics also includes the increasingly common efforts to decide policy matters directly through referenda and ballot petitions rather than through the deliberative processes of representative government. Politics may even include class action suits filed on behalf of collectives who have recognized their common victimization, and seek to use the courts rather than legislative processes to make their claims. Such actions are particularly political when they are used not only to win in the courts, but to influence public opinion about the claims that are being litigated in preparation for subsequent political action.

Again, all such actions are political in that they represent efforts by citizens to influence the use of government powers and resources to accomplish those public purposes that citizens think are important. The fact that there are so many routes open to citizens to try to influence their government is one of the distinguishing features of a liberal democratic society. The fact that individuals can still take civic action to advance public purposes even if they cannot engage the powers of government is another distinguishing feature of a liberal democratic society. There is much to be admired here. Indeed, to Hannah Arendt, this capacity to act politically, to shape ones governance, is the most important defining characteristic of liberty. The fact that such processes often produce a state that is restrained in its use of its power, and thus leaves room to individuals to act with high degrees of freedom is a less important kind of freedom than that we all get to participate in the process of self-government.

1. Characteristic Weaknesses of Democratic Politics

Yet, we are all aware that democratic political processes have some characteristic and chronic weaknesses.[53] The first is the fact that many citizens do not take the responsibility for engaging in politics.[54] They have too many other things to do: a living to be earned, families to be raised, fun to be had, leisure to be enjoyed. Politics simply fails to attract the attention of most people most of the time.[55] As a result, democratic governments act with less engagement, less legitimacy, and less information about citizens desires than is best for society.

The second is that political participation is unfairly distributed.[56] Those with more economic resources, more capacity to organize, and more education and social status participate more, and more effectively than those who have less of these resources. To some, of course, this inequality of political engagement is a virtue; government remains in the hands of those most able, and the important vices of democracy that the Greeks warned against can be avoided.[57] To others, however, the unequal participation constitutes a major injustice and a major threat to the promise of democratic government to accomplish those purposes that the citizenry as a whole would like to see accomplished.

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[53] Dahl
[54] Verba et. al
[55] [Walzer, 1991 #9]
[56] Unequal Participation in Politics
[57] Aristotle on the dangers of democracy

The third is that citizens are often ill informed about the issues that are decided in democratic political processes. Most public policy issues involve both competing values and major empirical uncertainties. We know that human beings are pretty bad at dealing with both these features of complex decisions.[58] Yet, citizens are rarely afforded the opportunity to deliberate and reason about these issues in ways that can help them come to a considered "public judgment."[59] They get a one-sided version from advocates, and a sensationalized account from the media. Issues that involve a tough decision among competing values -- e.g. the right to own guns and their utility in self-defense against the fact that guns seem to leak too easily from legitimate ownership to illicit ownership by criminals and youth and to support criminal activities -- are presented as one-sided questions. Issues that involve a substantial amount of uncertainty about their impact -- e.g. a decision to restrict the burning of hydrocarbons to reduce the "threat" of global warning -- are presented as certainties.

The fourth characteristic problem of democratic policy-making is that aroused, committed, and informed citizens often have a hard time reaching agreement once they have entered into the fray. They tend to become anchored in one position rather than another, and to resist movement from their preferred position for fear that they are "selling out" or "compromising" important matters of integrity and principle. The skills that go into negotiation, or the invention of a line of action that might actually dominate many others under consideration are relatively scarce.[60] Without them, and without some degree of trust and good will, the promise of democratic politics cannot really be realized.

All this is pretty familiar stuff. The important question for this paper, however, is what role (if any) does the voluntary, nonprofit sector play in supporting democratic politics, and in remedying these defects? The answer depends crucially on which organizations one has in mind when one is thinking about the nonprofit sector.

2. Nonprofit Organizations and Democratic Politics

To many, the heart of the nonprofit sector consists of what could broadly be called the "charitable" enterprises -- the organizations that exist to benefit individuals other than their members. Some of these are focused on relieving the suffering of the poor, and are thus charitable not only in the source of resources, but also in the objects of their attention. But many others are dedicated to other charitable purposes such as the encouragement of arts and culture, or the pursuit of medical research. These efforts can benefit the poor, but their benefits are not limited to the poor. The middle-class and even the wealthy might benefit as well.[61] Formally, these organizations are characterized in the Revenue Code as 501(c)3 organizations. They are set apart from other nonprofit organizations that are "member-serving" organizations that seek to provide benefits for their members, and from "political organizations" that seek to have a direct influence on the politics of the country. All these organizations are also set apart from faith-based organizations which have their own category in the Tax code. [Check This]

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[58] Tversky and Kahneman
[59] Yankelovich on Public Judgment
[60] Getting to Yes, Manager as Negotiator
[61] Clotfelter

If one considers the question of what role the 501(c)3 organizations play in the nation's politics, one enters into a sharp, contemporary political controversy. The issue has been how much scope is the society prepared to grant private foundations and various kinds of nonprofit organizations that provide services to and advocate on behalf of poor people in society. In ____, legislation was proposed by Representative Coates of _____ that sought to curtail the political activities of such organizations. While this legislation was probably motivated primarily by the fact that Representative Coates and others disagreed with the political views taken by such organizations, and feared their influence, the argument for regulation had to be based on more principled grounds. The principled argument was that, because such organizations were often "publicly subsidized" either indirectly through tax exemptions or more directly through government grants and contracts, they should not be allowed to participate in politics. The concern is not that they would advocate wrong purposes (presumably every citizen and association has a right to its views about how society ought to be organized). It is, instead, that such organizations would effectively contaminate the political process with their own self-serving desires to survive. Motivated to survive, they would use their powers and resources to persuade democratically elected politicians that their causes were just, and thereby ensure their existence. Just as it seemed appropriate to prevent civil servants from engaging in partisan politics (lest they act to preserve their jobs, and thereby contaminate the political process), so it seems reasonable to legislate against the lobbying efforts of organizations that benefit from government spending (lest they act merely to continue the flow of governmental benefits to them).

Obviously, there is a great deal to be said about this argument. For example, if this principle applies to organizations that serve and lobby for the poor, why doesn't it apply equally to defense contractors? Or, does an exemption from taxation constitute the same kind of government support to an organization that grants and contracts do? Or, perhaps most powerfully, why should an organization that constitutes itself as a 501(c)3 organization have to give up any of its first amendment political rights?

Perhaps the most important point to make, however, is a historical one. At the turn of the century, there was a similar political controversy about the unhealthy role that private foundations and the organizations they supported played in the nation's politics. At that time, however, the concern came from the left of the political spectrum. The left was concerned that philanthropists such as John Rockefeller and Andrew Carnegie were too successful in selling the virtues of capitalism to the country. It seemed wrong, in a democratic country, for a few wealthy men to have such influence over the public consciousness and discourse. Even worse, in spreading the "false consciousness" that justified capitalism, they were preventing the emergence of a more just and accurate socialist understanding of the society.

The point, I think, is that private foundations will always be a lightening rod in a democratic society because they do provide a powerful platform for wealthy individuals to use in advancing their ideas about the public interest. This constitutes a threat to the populist biases of the nation, though it can be justified readily enough as a reflection of some combination of the right to own and accumulate property on one hand, and the right to free speech on the other. To those who worry about the special power of the wealthy in public discourse, they always have the right to associate to counter the elitist tendencies.

A more important point, however, is to recall that the nonprofit sector does not consist only of private foundations on one hand, or and charitable service delivery organizations on the other. The nonprofit sector also consists of member serving and explicitly political organizations. Indeed, both the Democratic and Republican parties are non-profit organizations exempt from taxation. So, there is a huge piece of the nonprofit sector that is designed precisely to support the democratic political life of the country. Both the NRA and the Children's Defense Fund have their political lobbying arms (established as 501(c)4 organizations) as well as their charitable (501(c)3) arms. The political organizations receive reduced benefits from government (contributions to them are not tax deductible as contributions to 501(c)3's are). But they remain exempt from income and property taxes. And they have full political rights to participate in political activity. So, the role that nonprofits can play in democratic politics depends importantly on whether one is thinking of 501©3's, or 501(c)4's, or member serving organizations, or faith-based organizations. The most limited, controversial, and restricted role is played by the 501(c)3's. The far larger and greater role is played by other parts of the nonprofit sector. In fact, it would not be too much to say that democratic politics in the country would be radically altered if it were not supported by a wide variety of nonprofit organizations.

What, then, could or do nonprofit organizations do to strengthen democratic political processes? The answer, I think, is that they can and do make important contributions to remedying the chronic weaknesses of democratic politics.

3. Nonprofit Roles in Engaging Citizens in Political Action

First, nonprofit organizations have played an important part in engaging citizens in political action. All one has to do is look at the consistent efforts of the League of Women Voters in sustaining registration drives and "get-out-the-vote" campaigns to see the contribution that they make. All one has to do is to look at the success of the Christian Coalition in engaging a group of citizens who felt left out and abused by the politics and government of the country to see the kind of significant impact they can have on levels of engagement in politics. All one has to do is look at the role of nonprofit organizations in organizing ballot initiatives of one kind or another across the country.

One doesn't have to approve of all this activity. Indeed, one can reasonably be concerned about many emergent features of our contemporary politics. One can be concerned that less and less seems to be decided in elections for candidates and more and more seems to be decided through other political processes such as lobbying legislatures and administrative agencies, and holding ballot initiatives. One can also be concerned about the related development of a form of "single issue" politics in which citizens participate in politics not by endorsing broad platforms created by political parties, but instead by aggressively intervening in policy-making processes to ensure that their particular view of a particular issue is enshrined in public policy. Such developments make it harder for the citizenry as a whole to gain control over the general shape of governmental action.

But, if we were simply interested in the question of whether nonprofit organizations were increasing the level of citizen engagement in politics, I think the answer has to be yes. Indeed, without them, it seems plausible to me that levels of citizen engagement in politics would have shrunk even more dramatically than it has. As the market accustoms people to increasingly specialized and tailored services, and to

increasingly powerful messages, we may need nonprofit organizations, with their powerful and evocative special interest campaigns, to keep pace.

4. Nonprofit Roles in Assuring Fair Representation

How about the role of nonprofit organizations in assuring a fair representation of the views of citizens, including those who are politically and economically disadvantaged? It is here, I think, that the 501(c)3's have had a particularly important role to play in strengthening democratic politics, and it is precisely that success that has won them the enmity of the right. The voting rights organizations that have sought to establish and then assure the use of voting rights among those formerly disenfranchised; the community organizing efforts that have inspired downtrodden individuals to regain their dignity and pride, and make effective claims against local government; the advocacy groups that have spun off of service delivery organizations and now give public voice to the most disadvantaged; the litigating groups that have brought suits in federal courts to protect the rights of the disadvantaged; etc. have all done a great deal to right the balance of democratic politics. For this, it seems to me, they ought to be praised rather than threatened. I say this not because I necessarily agree with the idea that a just state would provide more generous welfare benefits, or greater amenities to prisoners than we now do. I say this because I think that democratic political processes are strengthened when citizens in all social positions can be heard.

5. Nonprofit Roles in Citizen Education and Public Deliberation

With respect to the role of nonprofit organizations in helping citizens understand and deliberate on issues, the record, again, has been one of major contribution. Indeed, I think that one of the most important contributions of nonprofit organizations has been in educating citizens. They have brought neglected issues to public attention. They have focused attention on important values that were being neglected in particular policy areas. They have produced important facts about the magnitude and scale of problems that existed in the society, and important accounts of the causes of such problems. They have also proposed innovative solutions, and done the work to find out which among the proposed solutions seemed to work. And, increasingly, they are providing the spaces and forums within which individuals cannot only learn about issues, but also deliberate about them in the company of their fellow citizens. This amounts to a huge contribution and to a huge potential for contributing more.

6. Nonprofit Roles in Facilitating Political Agreement and Enabling Civic/Political Action

As noted above, the focus of the nonprofit sector on particular issues has been criticized by some as a force that tends to restrict the polity's capacity to reach agreements. The emphasis on one value against all others makes it hard to agree. The emphasis placed on one issue may make it difficult to trade one issue against another and keep the polity's attention focused on the most important and pressing problems. This may all be true.

But some parts of the nonprofit sector now seem to be playing important roles not only in activating and arousing and informing citizens, but also in helping them come to public judgment and reach agreement. As noted above, some nonprofits are creating forums for citizens facing tough local issues to deliberate with one another. Still others

are playing key "brokering" roles in helping communities find and deploy resources to deal with drug abuse, youth violence, and economic development of low income communities. In short, some nonprofits active in civic and political activity have eschewed their accustomed strident advocacy in favor of playing a role in helping a community or polity reach an agreement, regardless of whether that agreement reflects a particular point of view or not. This is still a minor part of the role of nonprofits in politics, but it is increasing.

7. Summary of the Important Political Role of Nonprofits

Considering these observations and reflections, it seems that the role of the voluntary sector in strengthening the quality of democratic political processes ought to be viewed as one of the most important contributions that the voluntary sector makes to the society. Without the efforts of nonprofit organizations, our politics would be less engaging, less representative, and less informed than they now are. Nonprofits may also be playing an important role in searching for the methods and providing the support to an emergent kind of deliberative politics that would be better at helping polities reach value creating agreements about how best to deal with problems and/or exploit opportunities.

To preserve the political utility of the voluntary sector to the society, however, it is important to keep in mind that this sector has to be available to, and enjoy the trust of both the right and the left of the political spectrum. If the nonprofit sector is seen as a special enclave within which wealthy philanthropists are given a special license to trumpet the virtues of capitalism or left wing foundations and social advocates can foment a social revolution, then it will continue to be vulnerable. The sector is too important to society as a whole to allow it to become the special instrument of either the left or the right. It has to be for both.

One final point about the role that nonprofits can play in strengthening democratic politics. This sector provides a permanent lobby for the kinds of rights that allow democratic politics to exist at all. In this respect, the nonprofit sector is an important bulwark of freedom. The value of this contribution is easy to forget in the United States where we are so accustomed to enjoying rights to speak, to associate, to vote, to petition the government, and to represent our interests in courts that we count on not to be corrupt. But the value of this contribution is quite evident in the world's emerging democracies. There, one can see people risking their lives to create and defend the political space that we take for granted.

E. Transforming Social Conditions: Mobilizing Resources for Public Purposes

To this point, we have found virtue and public benefit primarily in what might be considered the expressive and developmental functions of the third sector. We have celebrated the third sector as the inevitable result of guaranteeing certain civil and political rights. We have seen how it might create individual satisfactions by providing a channel for the expression of certain kinds of preferences and aspirations. We have claimed that the activities of the third sector might be effective in building social capital, and that that capital, in turn, might help the society perform better in civic and political action. And we have seen the ways in which the nonprofit sector can improve the quality of democratic politics.

To this point, however, no material changes in aggregate social conditions have been produced. No poor person has become economically self-sufficient. No ill person has been healed. No illiterate person has been schooled. No drug addict has had their autonomy restored. No criminal has been rehabilitated or redeemed. All is in aspiration, expression, and in the mobilization of resources that could become valuable in transforming conditions in society; nothing is in production or transformation.

It is an important corrective to much of the public conversation about the nonprofit sector to focus on the role that the nonprofit sector plays in channeling and responding to social preferences that individuals have, and in building the social and political capacities within society to collectively define important public purposes to be achieved through civic or political action. But these points should not keep us long from noting the important role that the voluntary sector plays in helping society to actually *accomplish* its civilly and politically defined social goals. Indeed, to many, the socially valuable contribution that the nonprofit sector makes lies entirely in its ability to produce material, substantive results: to reduce poverty, cure disease, ameliorate disability, banish ignorance, cultivate tastes, preserve the environment, and so on. In this view, if the nonprofit sector cannot produce material changes in society, it has little to offer; it is nothing more than a huge fraud claiming to make a contribution to society when it actually does very little.

Fortunately, there are many ways in which the processes that are sheltered and encouraged by the existence of the nonprofit sector, and the activities undertaken by the institutions that comprise the nonprofit sector can and do produce material changes in social conditions. At the outset, it is useful to distinguish two broadly different functions: first, mobilizing the material resources -- the money, time, effort, and talent -- needed to make the important social changes desired; second, using those resources efficiently and effectively to accomplish the desired goals. We will look first at resource mobilization and second at production.

The role of the nonprofit sector in mobilizing resources to deal with important social problems is in one respect, one of its most important defining characteristics. After all, what is "voluntary" and "charitable" about the sector is precisely that it provides the space within which individuals, associations, and corporations can make voluntary contributions to public purposes. These voluntary contributions can include money, or materials, or time, or effort. They can consist of large individual contributions made by wealthy benefactors, or the accumulation of millions of small contributions made by ordinary people.

This means of mobilizing resources -- soliciting voluntary contributions from people who expect no return for their contribution other than assurances that their contributions were well used in the pursuit of the social goal to which they contributed -- is a unique, defining characteristic of the nonprofit sector. It differs from the methods the private sector uses to amass resources: namely, offering to investors a chance to earn significant financial returns if they invest their money with a company on one hand, and offering to customers products and services which are valuable to them at prices that will more than cover the costs of producing them on the other. It also differs from the methods that government typically uses to amass resources: namely, taxing citizens to pay for activities that their elected representatives had judged to be publicly valuable to produce. It has the unusual characteristic of being like the private sector in that it relies on voluntary exchange, and like the public sector in that it focuses on producing things

that are publicly valuable and from which the individual contributor does not necessarily expect a financial return. But it differs from the private sector in that it induces the financial contributions by offering a social rather than a financial return. And it differs from the public sector in that it allows individuals to choose the particular social result they want to support rather than requiring then to join with other citizens in supporting an entire slate of public projects.

This is not to say that charitable contributions are the exclusive, or even the principal source of funding to the nonprofit sector. We know that they are not, and that the share of this kind of funding to the nonprofit sector has been declining over the last few decades.[62] It is simply to say that this source of funding is much more common in the nonprofit sector than in either the private or governmental sector, and that it is one of the features that distinguishes organizations of the nonprofit sector from organizations that belong in the other sectors.

Despite the centrality of voluntary contributions to the public understanding of the definition and function of the "voluntary sector," the importance of such contributions has generally been neglected by those who are most interested in finding ways to use the nonprofit sector to achieve important social objectives. The reason is that, in their view, the capacity of the nonprofit sector to mobilize charitable contributions will always pale in comparison with the magnitude of the problems that society faces. The capacity to raise resources will also pale relative to government's ability to mobilize resources if the body politic can be persuaded to use its substantial powers to tax and to regulate to meet these problems. To them, then, it is a dangerous delusion to argue (as some of their political opponents have) that government taxes have "crowded out" charitable impulses; and that if government would reduce its efforts to reduce poverty, improve education, strengthen medical research, etc. that charity would increase to make up the difference. In their view, charity alone is insufficient to deal adequately with important social problems such as poverty, ignorance, discrimination, disease, and mental disability. Government powers to tax have to do the heavy lifting in mobilizing resources for these objectives. To believe otherwise is either willful ignorance or a cynical effort to rationalize a reduction in social efforts to deal with these problems.

The claim that charitable resources will always be small relative to the size of social problems, and that government will have to use its powers to tax and regulate if society is going to make progress in reducing poverty, improving the conditions under which children are being raised and preserving the environment is almost certainly a correct point. But once one has accepted the point that charitable sources cannot provide all the resources required to deal with large scale social problems, one can still see that the charitable sector can make important supplementary contributions to the resources available to deal with social problems.

Indeed, the attraction of voluntary, charitable contributions as a way to mobilize resources for public purposes lies not just in the total amount of money that can be raised (which is admittedly small in relative terms). It lies in the *efficiency* with which the money is raised. By efficiency here, I do not mean the ratio of dollars collected to dollars expended in trying to collect the dollars. The IRS has the charitable sector beat by a mile when we look at how much is spent to collect revenues. And the reason it does is that it has the authority of the state to deploy in collecting the revenues. I mean, instead, the

[62] Salamon. Primer

extent to which state authority is set aside in the charitable sector, and the way in which individuals are free to contribute their money to precisely those social goals that they value. Let me explain.

We say that the market is efficient in meeting individual desires for goods and services. When we say it is efficient, we mean that it is efficient in two different ways. On one hand, it is efficient in producing particular goods and services *at low cost.* (Competition among firms for consumers' custom is what guarantees this result, because it ensures that high cost producers will be driven out of business by low cost producers who can offer consumers the same product or service at a lower cost.) On the other hand, it is efficient in *producing only those things that individual consumers want.* (It is consumer sovereignty -- the right of consumers to refuse to buy products they don't want -- that ensures this result. Companies that produce products that customers don't want to buy will quickly disappear because they will fail to earn the revenues that keep them alive.)

Taxation is a very *low cost* way for the society to mobilize resources to deal with social problems. It simply has to authorize the state to use its authority to require individuals to contribute. Once taxes are levied, many citizens will comply "voluntarily." Others will have to be punished for noncompliance and made an example to their fellow citizens in the interests of encouraging further "voluntary compliance." But taxation is not necessarily a very efficient way of attracting *voluntary* contributions to public purposes. Most people do not top off their tax payments to the state with a charitable contribution. The state is hardly anyone's favorite charity. On the other hand, individual citizens *do* make charitable contributions directly to charitable causes and organizations that they favor. The reason they give to charities and not to the state is that they cannot be sure that the state will use their resources for the particular public purposes that the individual citizens think are important.

It is in this sense that taxation is an inefficient way to raise revenues. Unless the IRS and their state counterparts allowed citizens to earmark their taxes to their individually preferred public purposes, no one can be sure that the public purposes being supported by the taxpayers are those that the taxpayers really support. In contrast, precisely because charitable gifts are made voluntarily, we can be much surer that the purposes supported are those the contributor values. In this sense, we can imagine that charitable contributions increase social welfare relative to taxes because the contributors get more satisfaction out of their contributions.

In addition, although the money contributed each year is small relative to both need and government spending, it is hardly a negligible sum. In the United States last year, approximately _____ was contributed voluntarily to charitable purposes out of income. An additional _____ was contributed to charity from individual estates. This is substantially more than the federal government contributed to either welfare payments, or foreign aid, or arts and culture. [Check This]

The amount collected through charity is much less than the "tithe" that the bible recommends and that some religious groups actually succeed in collecting from their congregations. So, we can imagine that there might be some additional financial capacity in the charitable sector. Others have also noted the huge accumulation of personal wealth that has occurred over the last thirty years or so, and are now tempted by the prospect of a new age of philanthropy comparable to that that occurred at the turn

of the last century when the Rockefellers, Carnegies, and Fords established the modern tradition of philanthropy. And the fact that millions of citizens now seem to be in the habit of making charitable contributions also suggests a reservoir of potential contributions that has not yet been fully tapped. So, while acknowledging the important need for government to shoulder the major burden of raising funds to deal with serious social problems, it would be a mistake to underestimate the value of the nonprofit sector in raising funds for public purposes.

More important than the voluntary sector's capacity to raise funds is its ability to mobilize in-kind and contributions of volunteer time. Again, it is easy to disparage the in-kind contributions of clothing that fill collection bins with the clothes that style-conscious teenagers have rejected after a few wearings, and the corporate contributions of unwanted inventories of hemorrhoid medicines to the victims of famine and ethnic violence. But one has to take note of and marvel at the fact that the supply of blood that is used to treat trauma victims and allow major surgery to occur every day throughout the country is supplied entirely by volunteers. Similarly, we can disparage the images of the "friendly visitors" -- those society women who at the turn of the century "visited" immigrant families in the teeming ghettos not only to provide assistance, but also to scrutinize and patronize the child-rearing efforts of the hard-pressed families. But one has to be somewhat impressed by the fact that _____ people, many from poor and middle class as well as upper class families, have volunteered to be mentors to young men who lack fathers; and that _____ college students have signed up to offer reading instruction to children who are having difficulty in schools. One has to value these efforts not only for the contribution that the volunteers make to the disadvantaged; but perhaps as importantly for the contribution that the disadvantaged make to the volunteers. These volunteer efforts constitute some of the few remaining places where important social boundaries are crossed: where rich meet poor, where the well meet the sick; where the young meet the old; where the optimistic meet the despairing. As such, they may well be creating some of the important bridging social capital we need to underwrite and support effective civic and political action.

For all these reasons, then, it is important to focus on the capacity of the nonprofit sector to mobilize resources as well as to use them efficiently and effectively. We should not delude ourselves that all our social needs can be met by voluntary action. We have to have the political capacity to decide on those purposes that are sufficiently important that we are prepared as a collective to use the powers of government to tax and to regulate to mobilize the effort needed to achieve large goals. But we should be sure not to neglect or disparage the valuable contribution that charitable contributions make alongside governmental efforts.

F. Transforming Social Conditions: Efficiently and Effectively Producing Social Results

We come finally to what many believe is the single most important contribution that the nonprofit sector makes to the society: its ability to use resources (from whatever source) to achieve social results. In this view, it is the special competence of nonprofit organizations to conduct scientific research, provide medical care, assist the disabled, teach the ignorant, bring culture to the masses, etc. that makes them valuable to the society. As *producing* agents, it is claimed that nonprofit organizations are superior both to private corporations and to government bureaucracies. Their claim to superiority over private enterprise derives from the claim that they will be more committed to producing

social results, and less committed to making a financial return for shareholders. As a result, more of their productive energy will go into producing the social return -- their principal *raison d'etre*. Their claim to superiority over government bureaucracies is rooted in the idea that they can be more flexible and innovative than most government organizations, and therefore more responsive both to the variety of circumstances they encounter, and more capable of innovating and learning in the future.

Note that the idea of nonprofit organizations as *producers* differs in important ways from the idea of nonprofits as *resource mobilizers*. As *resource mobilizers*, nonprofits have a distinctive role in generating and channeling charitable contributions. That is the role discussed above. In contrast, neither business firms nor government agencies are authorized or set up to generate and attract charitable contributions. Were they to do so, they would arguably become part of the nonprofit sector.[63]

In contrast, as producing organizations, nonprofit organizations are much less distinctive. As producing organizations, non-profits can "sell" their productive capacity to a variety of different "buyers." In their traditional role as charitable enterprises, they can "sell" their efforts to different kinds of charitable sources: bequests from wealthy donors, grants from private foundations, disbursements from organized charitable collection agencies such as the United Way, individual contributions made in response to direct mail solicitations, etc. In another fairly traditional role, they can sell their productive capacity to government. They receive relatively open-ended grants to accomplish broad purposes of governments such as basic medical research or the spread of culture. They also enter into much more specific contracts to produce more particular things that government is trying to produce such as moving welfare clients and disabled workers to greater economic independence. In an increasingly common practice, nonprofit organizations can use their productive capacity to develop and sell products and services to fee-paying customers -- some of whose purchases might be supported by government, but some of whose purchases might not be. And in some emerging practices, they can enter into partnerships with for-profit businesses.

In short, as producing enterprises, nonprofit organizations have almost the same freedom to tap revenue streams as private enterprises. They are certainly as free to sell to government as for profits. Indeed, in some sectors, they have an advantage in selling to government because government is prohibited from contracting with for profit entities. [Check This] They are also relatively free to produce revenues by selling products and services. The only constraint is that the products and services they sell have to be related to their social mission. Even if the products and services are not mission related, they are allowed to produce and sell them. It is just that they have to pay taxes on the returns to this part of their activity. So, nonprofit organizations are relatively distinctive in their reliance on charitable sources as a part of their financial base, but they are similar to for-profit organizations in their ability to sell products and services to government and to willing customers.

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[63] (Note: increasingly government is seeking voluntary contributions of time and labor to supplement its efforts. When money is involved, a nonprofit organization is usually set up to receive and administer the funds, so that government is not directly involved. When labor is involved, a nonprofit organization may be created, but the relationships are more informal. The increasing reliance of government on private contributions raises some important questions about equity.)

This is all to the good, and seems to give nonprofit organizations a great deal of latitude in developing and pursuing their overall strategic purposes. There is one small problem, however: once nonprofit organizations are cut loose from their distinctive revenue source (the supply of voluntary contributions of money, material, and time); and once it is recognized that as producing organizations, nonprofits are in competition with both government agencies and for-profit entitities in achieving social purposes, then, from the point of view of other buyers such as government and individual customers, there seems to be little reason to prefer nonprofits to for profit or government organizations. Or, put more precisely, the *only* reason that government or private consumers would prefer to do business with a nonprofit organization is that the nonprofit organization was more efficient and effective in producing what the government or private customer wanted. Once a nonprofit organization claims that its distinctive competence is that it is an outstanding producer of a desired social result -- not an organization that can attract voluntary resources to a cause, and not an organization that has a monopoly on the pursuit of a particular social cause -- then it must face competition from other organizations that are also capable of producing the desired social results. From the point of view of government, it shouldn't matter whether it is contracting with a non-profit, for profit, or governmental agency. As long as it can specify what is to be produced in the contract (including the specification of some important dimensions of quality and fairness), it should seek the organization that can accomplish the contracted purposes at the lowest possible cost. The ownership form shouldn't matter.

As producing organizations, then, nonprofits have to compete with these other entities not in terms of their ability to mobilize resources, nor in terms of the social attractiveness of their purposes, but instead in terms of their ability to use resources from whatever sources to achieve results expected by those who contributed the resources. They have to compete by showing that they can produce more and higher quality outputs per unit of cost than competing producers. Thus, an important question becomes whether a nonprofit organization could be expected to be a low-cost, high-quality producer of results desired either by charitable contributors or by government or by business partners. Obviously, the important proof here is in the actual performance, not in the theory. But it is worth noting the kinds of claims that are made at the theory level about why it might turn out to be true that nonprofit organizations will be more efficient and effective producers of results desired by those who purchase their efforts.

1. Reduced Labor Costs

The first claim is that, all other things being equal, the nonprofit firm ought to be a more efficient producer of social results because its labor costs ought to be lower. This follows from the claim that many who work for the nonprofit organization will work for lower wages than they would in for-profit entities. In this view, the entrepreneurs who created the enterprise, those who manage it, and those who staff it, all do so because they love the purposes and mission of the enterprise. Achieving that mission is at least part of their reward. This is, of course, entirely true for those who volunteer their labor. But it might even be at least partially true for the paid staff. The paid staff might well be accepting a lower wage than they could earn doing the same job in a different business, or in a different kind of firm in the same business. As such, they might be considered "quasi-volunteers," with the magnitude of their voluntary contribution to the entity being the difference between what they could earn, and would demand to earn in a different occupation, or in a different kind of firm in the same field.

A nonprofit organization might also be able to attract entrepreneurs, managers, and workers at lower wages than would be true of a private corporation or a government bureaucracy as a consequence of different organizational structures and decision-making processes. Suppose that there are many energetic, creative individuals who do not like the hierarchy and control that characterize both for-profit enterprises and government bureaucracies. Suppose, further, that nonprofit organizations tend to organize and operate with less hierarchy, and with much more collegial decision-making. Suppose still further that there was no price to be paid in the efficiency and effectiveness of the organization as a consequence of reducing hierarchy and extending decision-rights more widely throughout the organization. Then, it follows that a nonprofit organization might be able to outperform a for-profit entity or government bureaucracy because it attracted not only those who loved the mission, but also those who loved the particular kinds of working relationships they found in the nonprofit entity. To the extent that a nonprofit firm could attract labor that was compensated by identification with the mission, or the working style of the organization, then, it might enjoy a cost advantage over competitors.

There are several problems with this view, however. For one thing, volunteers are often harder for organizations to use as effectively as paid employees. The reason is that organizations have to accommodate themselves more to volunteers than to paid labor. They often feel less able to demand particular levels of skill among their volunteers, or to insist that volunteers meet their commitments to work at particular times and places. For their part, volunteers may feel especially entitled to be consulted about the terms and conditions of their work, and even more about any change in the strategic direction of the organization. In short, because they work voluntarily, the organization has less flexibility in using them. It also must extend special efforts to make their labor feel worthwhile. The net effect is that the value of volunteer effort has to be discounted somewhat for the extra costs associated with employing it. In some circumstances, the extra costs might be high enough that the volunteers would be considered more trouble than they are worth. (Note: this accounting leaves out the value to the society that the volunteer acquires as a volunteer. In principle, they might be willing to pay. And so they do.)

In addition, it is by no means clear that nonprofit organizations are the only organizations that can capitalize on these particular methods to drive labor costs down. For example, government has long been able to attract talented people to work for lesser pay than they could make in the private sector because they liked the general or particular social purposes of government. There are plenty of lawyers working in the Justice Department and plenty of engineers working for NASA and EPA that could make much more money in the private sector. They work for government because the like the mission.

Similarly, businesses are increasingly understanding and exploiting the important motivational power that comes from linking their enterprises with important public purposes that interest and engage their employees. They are aided in this by the fact that the threat of global competition and the risk that the American economy might falter has reminded all of us that the private purposes of business -- to create wealth for shareholders, to deliver high quality products and services to customers, to create jobs for workers -- have no small amount of public value. Thus, it is now publicly as well as privately valuable to work for private enterprise. They are also helped by the fact that

many of the modern ideas about management have altered the hierarchical style of organizations so that they now offer the same kind of working environments that nonprofits often do. And, to the extent that they enter into the same businesses that nonprofits once dominated -- the provision of high quality health care, the education of children, aid to those who are disabled or poor -- they might have the same opportunity to attract those who care about performing those missions well -- particularly if those people have become frustrated with trying to accomplish these demanding goals in the context of either government or nonprofit organizations. All of this reduces the competitive advantage that nonprofit organizations have in attracting voluntary labor, and with that, narrows their competitive advantage as producing enterprises.

2. Higher Quality Output

The second claim about why nonprofit organizations might have a competitive advantage over both government bureaucracies and for profit entities is importantly related to the first: namely, that nonprofit organizations can reliably generate higher quality output for the same costs than either government or for-profit agencies. The idea is that nonprofit organizations are filled with individuals who are in the organization working for the cause. Their values are such that, when presented with a choice between producing a higher quality output with a little extra effort on one hand, or shirking because no one will notice, those working in nonprofit organizations will be more inclined to put out the extra effort.[64] In effect, the argument is that one might be able to rely more on nuns to provide a high degree of personal service and medical care in a home for Alzheimer victims than one could trust a person who lacked the religious reasons to deliver the care. Or, (less plausibly) one can trust a person who has shown his love for scholarship and learning by earning a PhD to be willing to sustain a high level of effort in teaching and research in a University even when there is no economic reason for the person to maintain a high level of effort.

Note that this claim is almost the same as the first argument because it rests on the same assumptions about human motivation and values: the claim is that those who staff nonprofit organizations are motivated more by the achievement of the organization's social goals than by the anticipation of personal financial gains. Consequently, they will voluntarily choose to do what they can do to deliver the social result even when they could shirk from that task and suffer no important financial consequence.[65]

Again, whether this claim about the nonprofit sector is true or not is a bit uncertain. There may be malingerers and shirkers in the nonprofit sector as well as in government bureaucracies and for-profit enterprises. Anyone who has worked in a campaign, or helped to construct a playground with other fathers has noticed that some do more work than others, and that those who do less do not feel less virtuous than those who worked hard once the job is done. Similarly, it is by no means clear that the willingness to deliver more value than one is required to do survives only in the nonprofit

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[64] Henry Hansmann

[65] (Note: this assumption is particularly important in situations where neither donors nor clients can judge the quality of the service they receive. This is the core idea behind Hansmann's defense of the nonprofit sector as a sector that is necessary to deliver services whose quality cannot easily be judged efficiently and effectively. To avoid having donors and customers being routinely exploited, people who will voluntarily exercise restraint must staff such organizations.)

sector. One can go to many governmental and for profit enterprises and find many people who are motivated to go the extra mile because of a moral feeling that this is the right way to behave. On average, there may well be important differences -- economically, socially, and morally -- in the nature of the labor contracts constructed across nonprofit, governmental, and for-profit firms. But it is almost certain that the differences among the labor contracts are matters of degree rather than kind, and that the variation across individuals within a firm, and across firms within a sector will probably be greater than the variation across sectors. As a result, it is only insofar as nonprofit organizations remain unusually good at generating an intense commitment among employees, or attracting to themselves the kinds of employees that make unqualified commitments, that nonprofit organizations will be able to retain the competitive advantage that is often claimed for them.

3. Increased Responsiveness and Customization

The third argument for the superior productive capacity of nonprofit organizations is principally an argument for the superiority of nonprofit organizations in delivering services when compared either to government bureaucracies, or perhaps to private organizations operating under government contracts. The basic idea is that we can rely on nonprofit organizations to notice and respond more sensitively to the heterogeneous individual circumstances of the individuals whom they seek to help.

Individually tailored services could be considered valuable for two different reasons. First, increased responsiveness to individual circumstance can be expected to gratify the clients of the service, thereby increasing the value of the service to them. Students whose particular learning disabilities are accurately diagnosed and dealt with in a learning plan, welfare moms whose problems with child care and abusive boyfriends might be accommodated by a welfare to work plan, polluting companies whose particular position in an industry might be appreciated might all appreciate an individualized approach to their problems. Second, the individualized response might increase the chance that the client will respond to the intervention in socially as well as individually beneficial ways: the disabled student might learn and become resourceful; the welfare mom might actually make the transition to economic independence without jeopardizing the future of her child; the polluting company might reduce its pollution. In short, individualized treatment increases client satisfaction and the likelihood of achieving important social results.

Arguably, nonprofits have some special capacities for providing individually responsive services when compared to government bureaucracies, or to private agencies working under tight government contracts. One reason is that society may grant nonprofit enterprises more license to treat cases differently than a government organization can. When the government provides a service, and particularly when the government enforces an obligation, it is inevitably under constraint to do so fairly. Fairly means treating like cases alike. It also means noticing and recognizing when cases are different from one another and treating different cases differently. But it is difficult for government agencies to notice all the relevant differences among cases because it is also supposed to operate according to relatively simple rules.

Now, one can operate an organization through a system of rules that can ensure that like cases are treated alike, and that cases that are importantly different are treated differently. But one cannot do this and have a simple, transparent set of rules at the

same time. The reason is that recognizing important differences among cases inevitably increases the complexity of the rules. But if one doesn't allow the rules to become complex, the organization cannot notice or respond to important differences among cases. This is, in many ways, the heart of "the bureaucracy problem."

The only way out of this dilemma is to allow the organization to exercise some discretion in the way it handles individual cases. This allows customized responses to be made without necessarily having to write those customized responses into a new, complex set of rules. But to allow an organization to have discretion, one must trust its members to exercise that discretion well. We have sufficient mistrust of "bureaucrats" on one hand, and "profiteers" on the other, that we are loath to grant significant discretion to either government officials or to for-profit firms operating under government contract. We demand high degrees of exacting accountability and little discretion in the way that school teachers instruct, welfare case workers help their clients to economic independence, and regulatory enforcement agents demand compliance from polluting firms.

In contrast, if society believes that nonprofit organizations have some special capacities to recognize and respond to the unique circumstances of the clients whom they seek to help and encourage, and also that the members of the nonprofit organization can be trusted to act on their particular knowledge in effective ways, then society may grant them greater discretion in the way they handle particular cases. In effect, nonprofit organizations may tap a different source of legitimacy in the way they operate than government and for profit organizations can. The legitimacy of government organizations rests primarily on their fairness, secondarily on their ability to achieve results, and relatively little on their acceptability to their clients. The legitimacy of nonprofits, on the other hand, rests primarily on the idea that they are acceptable to their clients, and more effective in helping the clients do what society wants them to do. In this respect, nonprofit organizations may be much more effective in achieving the twin goals of satisfying clients and achieving social outcomes than government bureaucracies can be.

4. Effectiveness in "Obligation Encounters"

Note that this effect might be particularly important when the "service" being provided is not just a "service" to the client; but also involves imposing some kind of socially imposed obligation on the client. For example, when we are supporting a welfare-to-work program with government funding, our aim is not simply to increase the satisfaction of the client with her life, but to get her off the welfare rolls and into legitimate employment. We may want that for her because we think (paternalistically, perhaps) that this is in her long run best interest; that being economically independent is necessary to achieving the kind of dignity and autonomy that is necessary to the good life. But we might also want it for ourselves as a way of reducing future financial liabilities. Or, we might want it for ourselves as a way of reducing the embarrassment we feel at living in a society where some are dependent on the state, and those who are dependent are kept in a state of poverty and degradation. Whatever our reasons for supporting welfare-to-work programs, the services offered come with an implied obligation: we are providing you with day care, job training, drug abuse treatment, and income payments so that you can make the leap to economic independence. The expectation that the client will get a job is the quid for the quo of the income and services supplied.

This kind of encounter -- what I would call mixed "obligation/service encounter" is quite common in the public sector -- particularly the part of the public sector that is financed with government money, and that uses state authority in trying to achieve social objectives. It is present not only in welfare-to-work programs, but also in child protective services, in drug treatment programs, and in probation and parole efforts with prisoners. Success in such encounters is not defined only the client's satisfaction with the encounter, but also by the success of the encounter in motivating the client to take actions that are desired by the public that is actually supporting the program.[66] Thus, an important operational question is what makes such encounters successful in inducing compliance with society's objectives. An important part of the answer almost certainly is the perceived legitimacy of the demand being made on the client, where legitimacy is being judged from the client's perspective, not society's. Arguably, the perceived legitimacy of the demand is much higher when it comes from a locally based nonprofit organization than when it comes from a remote government agency.

To make this discussion a bit more concrete, consider the problem of the Child Protective Service Agency in Massachusetts as it tries to reduce the abuse and neglect of children in the Hispanic community. It has some money to buy services for families that have abused and neglected their children, or are judged to be at risk of doing so. It also has significant civil and criminal authority to insist that parents treat their children well on pain of losing their rights to raise their child or even criminal prosecution if they fail to comply.

Yet, all these powers seem relatively ineffective when they try to protect children in the Hispanic community. Because the government agency is deeply mistrusted in the Hispanic community, they do not receive the complaints about abuse and neglect that would signal a family headed for trouble. Even when they receive the complaints, they cannot effectively investigate the circumstances because they do not speak the language, and do not understand the cultural norms that are understood to be legitimate in the community. When they have the facts, and try to provide the services and obligations that would improve the family's performance, they find that they are met with resistance rather than enthusiastic cooperation. Indeed, they find that members of the local community join in supporting the parents against the CPS efforts to protect children.

Such an enterprise could be enormously helped by a partnership with a community-based organization that would assume some of the responsibility for both setting and enforcing child-rearing standards. An organization that had developed its credibility with the local community over many years, would be an extremely valuable asset to the government sponsored CPS agency. Such an agency could encourage a conversation within the community about the importance of raising children in safety, and in defining its own standards for unacceptable levels of abuse and neglect. It could play an important role in identifying and responding to cases. And, in all likelihood, precisely because it enjoyed a high degree of local credibility, it would be much more effective in imposing obligations and inducing compliance than a government bureaucracy or a national for profit organization operating under a government contract. In effect, the nonprofit organization would have a valuable asset -- credibility with the

[66] this is why the concept of "customer oriented government," while valuable for some purposes, is a seriously misguided concept

local community -- that would make it unusually effective as a partner to government, and that would be difficult for the government or a for profit entity to replicate.

5. Increased Innovativeness

For some of the same reasons that nonprofit organizations might be unusually effective in providing customized services (at least compared to government bureaucracies or for-profit firms operating under government contracts), they might also be unusually effective in producing important innovations in public sector operations. After all, each customized response to a client might be considered an "innovation." And some of the innovations that are created to deal with the heterogeneity of the circumstances that organizations encounter might turn out to be valuable in dealing more effectively with all or a large portion of the cases that an organization encounters.

Beyond the small scale adaptations that allow organizations to deal with heterogeneous clients, however, nonprofit organizations may be able to develop, test, and deploy innovations that could change the basic way that public sector enterprises operate. They may find new core technologies for curing illness, teaching students, displaying art, preventing drug abuse, or rehabilitating criminal offenders.

Part of their special competence in innovating may come from their special source of funding. One view of the proper stewardship of charitable dollars is that they must be rigorously focused on providing direct services. The mark of excellence in using these dollars is that as little as possible is taken out for administrative expenses, and as little is left to chance as possible. In this view, charitable dollars are a lot like tax dollars: the aim is to deliver as much immediate result to donor and taxpayer as possible.

Another view of the proper stewardship of charitable dollars, however, is that special efforts should be made to "leverage" their impact; that is, extend the effect of the dollars over time and space beyond what they can directly support. One of the important ways that such leverage can be produced is by supporting the development of important new methods or programs for dealing with important social problems. In this view, charitable dollars are particularly valuable not when they are being used to support existing programs, but when they are used as a kind of social "venture capital" that is seeking better ways of dealing with enduring social problems.[67] In short, supported by charitable "risk capital," nonprofit organizations are particularly well situated to develop the important innovations that can reduce the cost and improve the performance of the public sector generally.

Another part of the distinctive competence of the nonprofit sector in producing innovation, however, comes not from their distinctive source of financing, but from the fact that they are not bound by the same rigorous rules as bind public bureaucracies. The government can contract for innovations from the nonprofit sector. It finds it much more difficult to produce innovations through direct investment in itself. The reason is that part of the risk of experimentation and failure is off-loaded to the nonprofit organization.

In short, government organizations are supposed to be reliable and steady. They are supposed to be competent, and know what they are doing. They are not supposed to

[67] Letts, Virtuous Capital

be experimenting with methods that might not work. As a result, they are neither expected nor trusted to search for innovative methods. On the other hand, independent, nonprofit organizations are expected to be more entrepreneurial and innovative. They are allowed to try things and to fail. This is true particularly when they are spending charitable dollars, but even when they are spending tax dollars.

G. Improved Performance of Other Sectors

To this point, we have been discussing the important contributions that a vigorous third sector can make directly to a liberal society through its own, independent contributions. But one could also imagine that the utility of the third sector might be made not only through its own independent efforts, but also through the impact that the activities of the sector could have on other major sectors of society: particularly, politics and government on one hand, and markets and business on the other.

Of course, a close reader might have noted that many of the claims that have been made about the utility of the third sector to society have actually been about the effect that this sector could have on politics and government. The section that focused on the role of the third sector both as an expression and a guarantor of basic political rights could be read as an observation about how the nonprofit sector could strengthen politics and government. The section that focused on the role of the nonprofit sector in creating social capital could be understood as a contribution that would strengthen the society's capacity not only for civic action, but also for political action. The section that discussed the ways in which the nonprofit sector could strengthen the quality of democratic politics was explicitly and directly on the contribution that the nonprofit sector could make to democratic efforts to define collective purposes to be achieved through the use of state power. And the section immediately above that analyzed the role of nonprofit organizations as producing enterprises showed why the unique capacities of nonprofit organizations might be particularly valuable in partnership to government, as government sought ways to accomplish the goals that democratic politics had set for it, and to do so at a low cost, and in a way that was perceived as fair. So, we have already said a great deal about how the nonprofit sector can strengthen the politics and government of a liberal society, as well as create a base for independent, civic action operating alongside or above what would be commonly understood as politics and government.

What we have not yet focused much attention on is the emerging role of the nonprofit sector in improving the performance of the market economy, and the individual firms that comprise that sector. It turns out that there are some important things to be said about these potential contributions as well. In many ways, the nonprofit sector might turn out to be as important a partner to markets and business as it is to government. Moreover, the benefits of that partnership might not be only to the firm, but also to the broader society and the causes embraced by the nonprofit enterprises.

1. Partnerships that Increase the Performance of Private Firms

One important contribution made by nonprofit enterprises to for-profit firms comes from partnerships they form with nonprofits to improve the for-profit firm's own

economic performance.[68] These partnerships are usually formed around one or another important business function to which the nonprofit organization may make an important contribution.

For example, many of the most advanced, high performing companies in the American economy have figured out that their future capacity to perform economically depends on their ability to attract a retain a highly motivated, highly competent workforce. They have also noted that many such people today are motivated less by the prospect of financial returns than has been true in the past. Today's rising young people are interested in making a social as well as an economic contribution to the society. They believe that a vital economy is an important public goal, and are happy to work for a firm that is helping to achieve that goal. But that abstract purpose, and the financial returns they make from working for a private company are not enough. Many want a more explicitly social objective for the enterprise, and a chance to work on social goals other than producing high quality goods and services, creating wealth for share-holders, and jobs for workers. They want to produce a direct social impact as well.

As it turns out, partnerships with various nonprofit organizations help to meet this need. For example, Timberland, a very successful firm making clothing for youth, established a significant partnership with City Year, a nonprofit organization focused on youth development.[69] The relationship with City Year helped Timberland establish a separate identity in its effort to recruit workers, and provided it with concrete opportunities for its employees to work directly on important social objectives. This helped cultivate and sustain a corporate culture of commitment and hard work within the organization that allowed it to continue to be successful. In effect, the partnership with City Year became an important part of Timberland's human resource management system, and is credited by both management and workers in Timberland with improving the overall performance of the firm, as well as the morale of employees.

Another example: many private firms have noted that individuals in society do not confine their charitable impulses to the moments when someone at church passes the plate, or when a member of Greenpeace knocks on their door asking for donations, or when they receive a direct mail solicitation. They are interested in supporting environmental goals by "buying green" in the supermarket (paying a premium to purchase environmentally conscious products), and they are willing to use credit cards more intensively around Christmas time if the credit card company promises to give some unspecified portion of their proceeds to charity. In short, if companies can associate themselves and their products with important social causes, and if those causes are important to consumers, then private companies can gain a marketing advantage.[70]

Now, there is much to be thought about and discussed about the private sector's use of "cause marketing" as a way of boosting their economic performance. Insofar as this is seen as motivated by corporate greed, it will do little to save the soul of business. Moreover, to the extent that the nonprofit enterprises who associate themselves with such enterprises (and either do or do not receive a payment for their co-operation) are

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[68] Indebted to James Austin and his colleagues in the Social Enterprise Group for educating me as to the economic and social value of these kinds of partnerships.

[69] City Year Case

[70] Indebted to Kash Rangan

seen as corrupting themselves through their contact with commercial enterprises, one can imagine the overall image of the nonprofit sector being tarnished, with negative consequences for its social standing, its ability to maintain the privileges associated with its social status, and its ability to attract contributions of money and time.

Yet, in assessing this trend one should also keep in mind that cause marketing efforts undertaken by for profit entities might actually be helping the nonprofit's cause as well as the nonprofit's pocketbook. After all, much of the struggle in the nonprofit sector is keeping various causes alive and present in the mind of citizens. That effort is often made through various kinds of public service announcements and private mailings. Perhaps these efforts would not be importantly aided by a private company's advertisements focusing on the cause. When a company advertises a dishwasher detergent that is environmentally friendly, and a credit card company reminds us of the plight of the poor, it may be that the overall social commitment to protecting the environment and reducing poverty is being supported. It is not enough of course. And the motives may not be the best. But still, the cause is being kept alive and present in the lives of consumers who are also among the citizenry of the society.

A third example: successful companies are generally committed to high levels of new product development. To be successful, their product development efforts often need what are called "test beds" or "beta sites" where their performance and value to customers can be closely examined, and the products improved. This is particularly true for many new technology products, and particularly those that are thought to be valuable in health, in education, and social services. Often, the companies need for "test beds" and "beta sites" combines usefully with a nonprofit organization's interest in innovation and connection with local communities and public services.[71] The company needs someone to work with in figuring out whether a new kind of information technology can support learning in public schools. A nonprofit organization interested in education that has important connections with the local school district can help create the conditions under which the new technology can be tested and approved. The partnership is created to the benefit not only of the local district that gets to experiment with the new technology, but also to the benefit of public schools more generally if the new technology works well.

The point here is that nonprofit organizations can often become value creating partners to businesses -- particularly those businesses developing products and services that are part of the public sector, but also those businesses whose public contributions are limited to creating wealth, producing products and services, and developing jobs -- that is, the usual public contributions of private business. Insofar as they do this, some important public value may be created, and that value registers as another important contribution of the nonprofit sector to the wider society.

2. Market Finding and Development

A second important contribution made by the nonprofit sector to business is closely related to their role in creating test beds or beta sites for new product development. This contribution could be called "market finding" or "market development." The quintessential example of the importance of this function is the role that nonprofits have played in developing the industry of "micro-finance."

[71] Indebted to Rosabeth Moss Kanter

The basic story in micro-finance is that the commercial banking industry had long operated on the assumption that there was little money to be made in providing small loans to poor people who were operating very small businesses such as street vending, or small repair shops. The transaction costs of servicing the loans were considered to be too high. The risks of default too great to make such loans profitable. As a result, poor people had little access to credit beyond that provided by unscrupulous loan sharks. This not only reduced overall economic activity, but also deepened the disadvantage of the poor, and increased their resentment of unfair treatment by society's institutions.

Concerned about the social consequences of the lack of credit for the poor, some nonprofit entrepreneurs developed enterprises designed to make small loans to poor people running small businesses. At the outset, these efforts were financed by charitable contributions: the energy and commitment of the entrepreneurs, and some foundation money and other charitable contributions. Somewhat unexpectedly, these operations turned out to be able to earn financial returns that would allow them to operate without continued charitable contributions. As soon as this became apparent to commercial banks, the commercial banks wanted to enter the business, and in doing so, significantly expanded its scale and reach. The social goals of promoting economic development in poor communities and ensuring a more equal access to capital were achieved. So were the private economic goals of the commercial banks.

What is interesting and important about this story, and the thing that makes it a bit different from the idea of test beds and beta sites described above, is that in this case, it was nonprofit entrepreneurs, motivated by a social objective, who raised the capital for and found not only a way to achieve their social goals, but also a market opportunity in which private businesses could make money. In a sense, the commercial banks had been both insufficiently capitalistic, as well as insufficiently motivated by social concerns. They had dismissed the idea that money could be made with small loans in poor communities, had been afraid to take the risk of exploring whether that assumption was true or not, and failed to imagine and develop the particular methods that proved to be important in allowing the micro-finance enterprises to work. In contrast, the nonprofit entrepreneurs, motivated by the social goals, had proven capable of developing a whole new economically viable industry.

While this is the big story so far, it might well turn out to be true that this sort of relationship will develop often in the future. Nonprofit entrepreneurs, motivated by social goals, capitalized by charity, may successfully invent products and services that form the basis for whole new industries that business may be able to capitalize on.

3. Monitoring: Helping Business Meet its Public Responsibilities

The activities described above are both ways in which the nonprofit sector can make contributions to the performance of business that business is likely to acknowledge as important contributions. They are both "win-win" situations in which business, nonprofit organizations, and society at large are plausibly advantaged. A third way in which the nonprofit sector might help improve the performance of business is less likely to be recognized by business as a useful contribution. That is the role that nonprofit organizations have played in calling businesses to account, and in helping them meet their social objectives beyond turning in a good economic performance.

Business is given its "license to operate" by society primarily to perform its economic functions: to create wealth, to produce high quality products and services, and to create jobs. But business also has some broader responsibilities to society. It is supposed to meet its obligations under law to pay taxes; provide safe, non-exploitive working conditions; bargain collectively with labor when that is labor's expressed desire; and avoid polluting the air, water and land. It may also have some moral if not legal responsibilities to the communities in which it operates -- particularly if those communities are particularly dependent on a company for their economic well-being.

The problem with these responsibilities is that meeting them does not necessarily produce a financial return to the firm. In fact, usually the opposite is the case: it costs the firm money to come into compliance with these different requirements. As a result, businesses are often tempted to short-change these social responsibilities in favor of meeting what they regard as their more fundamental social responsibilities: to produce economic not social value.

There is an on-going debate about the value of trying to meet a variety of social goals through the direct regulation or the indirect influence of business entities. There is doubt both about the value of the social goals being pursued, and the appropriateness of the means chosen for achieving the goals. If the goals are social goals, why not raise the money to pay for them through taxes? Why force the costs onto business, which then has to force them onto consumers?

Regardless of one's position on these important policy questions, it is clear that nonprofit organizations play an important role in bringing pressure to bear on businesses to meet their moral and legal obligations to society. Presumably, this is resented by business when the claim seems to them inappropriate, and their resistance might well spark a valuable political discussion in which the appropriateness of the claim can be debated more widely in the society. But it is possible that in some circumstances, business might welcome this pressure.

This could occur, for example, when the leadership of a firm has already decided that it wishes to live up to particular moral and legal responsibilities. In such circumstances, top management may face the problem of developing the administrative systems that can focus the attention of the organization on the new goal, and winning the cultural battle inside the organization that is required to internalize the new socially responsible goals.

In such efforts to change the organization's performance, nonprofit organizations could conceivably play an important role. They could take some of the responsibility for monitoring the organization's performance, and thereby reduce the need for internal monitoring. They can provide some educational programs that may help to explain why the changes are important, and provide managers in the firm with the skills necessary to make the changes. All this, provided at much lower cost than a management consulting firm would charge to improve the profitability of an organization, could help the organization become a fairer employer, a better neighbor, and a more environmentally sensitive enterprise than it otherwise would be.

It is also possible that nonprofit organizations could begin to play an important brokering or mediating role between a private firm on one hand, and either outraged citizen groups or determined government regulators on the other. In this role, the

nonprofit organization may help to resolve a conflict in ways that would be more satisfying to both parties than if they had continued to struggle. The environmental nonprofit group could explain to the (rule bound) government that in this particular instance, important environmental goals could be secured at much less cost to the company and much greater benefit to the environment if they set aside their rules and the litigation that would surely follow, and accepted a deal that the company and the environmental group both thought was better than the policy being enforced by the government. Or, one can imagine a nonprofit group working closely with a company about the terms under which they would agree to stay within a particular community, or under which they would be allowed to build and operate a plant in that community. One can even imagine a nonprofit industry group developing and enforcing industry standards of some kind as an alternative to direct government regulation.

In sum, nonprofit organizations may be able to improve the performance of business not only by helping business do business better, but also by helping business become socially accountable in ways that business wants, or would prefer to heavy-handed government regulation.

V. Evaluating the Performance of the Sector, and the Organizations within the Sector

In this monograph, I have set out an ordered array of normative claims made on behalf of the voluntary, nonprofit sector. These have included the following ideas and claims: 1) that the nonprofit sector ought to be valued as the expression of important individual, civil, and political rights, and as important bulwark against the elimination of those rights; 2) that it ought to be valued as a social capacity to respond to and channel certain kinds of individual desires and aspirations that would otherwise not be responded to; 3) that it ought to be valued for its ability to create and sustain not only the social conditions that allow certain kinds of values to be expressed, but also the networks of reciprocity and trust that are both intrinsically enjoyable and instrumentally valuable in facilitating collective action; 4) that it ought to be valued for its contributions to the overall quality of democratic governance; 5) that it ought to be valued for its ability to mobilize resources for the accomplishment of social purposes above and beyond what the state makes available; 6) that it ought to be valued for its efficiency and effectiveness in achieving desired social results (regardless of who pays for them); and 7) that it ought to be valued for its ability to improve the overall social performance of both the market and the political/governmental systems.

What I have not done is tried to order these claims in terms of their philosophic and moral significance -- except to argue that concentrating only on its productive capacity to achieve social results, and its ability to support a particular kind of politics would be a mistake. Nor have I tried to assess the empirical truth or practical significance of the claims other than to offer an example here and there either to illustrate the argument being made, or to make it plausible that a claim was important enough to be included on the list, at least at the outset. These are the important and obvious next steps to take in trying to size up not only the potential, but also the reality of the third sector's contribution to the overall character and welfare of a liberal society.

But in conclusion of this stage of the process, I want to make a claim about the value of developing this list of arguments, and the way in which they might be used in the short run while we are accomplishing the important work described above. First, to

the extent I have succeeded in describing the array of socially valuable or beneficial effects that could plausibly be produced by the activities, processes, and institutions that are sheltered within the laws that establish and support the nonprofit sector, this list defines the criteria to be used in determining the extent to which the sector as a whole, and each particular organization within the sector contributes to social welfare. Second, to the extent that this list of valuable effects constitute the principal reasons that we give nonprofit enterprises a special social status marked by legal recognition of their special character and public subsidies of different kinds, it helps to identify the purposes for which nonprofit enterprises ought to be managed.

Not all organizations have to make all kinds of contributions, of course. Indeed, many nonprofit organizations turn out to be quite specialized not only in substantive terms, but also with respect to which of the above listed social functions they are designed to support. Nonetheless, each nonprofit organization can and should be evaluated in terms of their impact on these various goals, and managed to produce as much of these effects as possible. Just as we want to hold private corporations accountable in the first instance for the economic performance and in the second instance for the ways in which they act as good citizens and as good neighbors, so we might want to hold nonprofit enterprises accountable for their performance in protecting rights, in satisfying those who want to contribute, in building social capital, in strengthening politics, in mobilizing additional resources to deal with social problems, in materially changing social conditions, and in improving the performance of the private market. All are important. All represent important contributions that nonprofits might make to the well-being of our society.

In my view, this framework changes the way that society should look at the nonprofit sector and the organizations that comprise it. The nonprofit sector is not merely a special piece of society that is committed to charitable, social service enterprises, and that provides the political and operational infrastructure required to support the welfare state. Nor is it only the social space that wealthy individuals can use to advance their own more or less idiosyncratic views about the best way to organize society, or the appropriate public policies to adopt in dealing with particular problems. Instead, the nonprofit sector is the place where enormously heterogeneous individual human desires to express themselves, to associate with their fellows, to advance ideas about the goals of society ought to be, to take action to realize those goals, and to form partnerships with and demand accountability from other sectors of society are all allowed and encouraged.

This is a vision of a civil society that is close to the one conjured up by Michael Walzer in a brilliant piece on "Civil Society." In this view,

[T]he good life can only be lived in civil society, the realm of fragmentation and struggle, but also of concrete and authentic solidarities, where we fulfill E.M. Forster's injunction, "only connect," and become sociable or communal men and women....The picture here is of people freely associating and communicating with one another...not for the sake of any particular formation, but for the sake of sociability itself. For we are by nature social, before we are political or economic beings. (p. 298)

The phrase, "social being," describes men and women who are citizens, producers, consumers, members of the nation, and much else besides -- and none of these by nature or because it is the best thing to be. The associational life of civil society

is the actual ground where all visions of the good are worked out and tested ...and proved to be partial, incomplete, ultimately unsatisfying. (p.298)

These socially engaged men and women -- part time union officers, movement activists, party regulars, consumer advocates, welfare volunteers, church members, family heads -- stand outside the republic of citizens as it is commonly conceived. (p.299)

Only a democratic state can create a democratic civil society; only a democratic civil society can sustain a democratic state. The civility that makes democratic politics possible can only be learned in the associational networks.....Confronted with an overbearing state, citizens who are also members, will struggle to make room for autonomous associations and market relationships (and also for local governments and decentralized bureaucracies). But the state can never be what if appears to be in liberal society, a mere framework for civil society. It is also the instrument of struggle, used to give a particular shape to the common life. Hence citizenship has a certain practical pre-eminence among all our actual and possible memberships. That's not to say that we must be citizens all the time...But we must have the state open to our sometime involvement. (p.302)

[In the end] Civil society is tested by its capacity to produce citizens whose interests, at least sometimes, reach farther than themselves and their comrades, who look after the political community that fosters and protects the associational networks. [p.303]

Appendix 1:

Other Sectors of Liberal Society

I. Other "Private" Sectors: the "Domestic," and the "Religious" Realms

While these two large sectors -- the "private" and the "public" -- loom large in common conceptions and public discourse about liberal society, one can't help but notice that there are other "private sectors" than those associated with the market economy, and other "public sectors" than those associated with electoral politics and government. For example, there is a "private" realm that is more intimate than the realm of the private economy. One could think of this as the "personal," or "domestic," or "family" realm. This is the sector where individuals decide how to live: how much time to give to work, and how much to leisure; what kind of work they would like to do; how they will develop themselves as economic contributors, as citizens, as friends. This is also the realm within which individuals construct their important intimate relationships: whether they will marry or stay single; have children or remain childless; live up to or abandon commitments they make to their spouses, children, friends and parents.

To identify this "personal," or "domestic" realm as a "social sector" might strike many as odd -- even dangerous. After all, an important goal of a liberal society is to treat this realm as sacrosanct, and protect it from any kind of social or governmental control. Simply to list it as a "social sector" is, perhaps, to make it visible and therefore vulnerable -- not only to informal social influence, but also to formal governmental control.

It is worth noting, however, that events in this sector are often crucially important to the performance of both the "private/economic" and the "political/governmental" sectors. It is from this domestic and family realm that the entrepreneurs, managers, workers, and customers of the private economic sector. It is also within this realm that the political leaders and citizens of the political/governmental sector are created. It is to make life better in this realm that much of the work of the marketplace is directed; it is more than GE that "brings good things to life." It is also in response to failures in this realm that government often has to act. When individuals fail to invest enough in their own capabilities, when families fail to care for their dependents, citizens have often turned to government to ask it to act to deal with the casualties that otherwise emerge.

Perhaps to defend itself from failures within this realm, as well as to set some common standards, society, acting through government, already does exercise some control over this quintessentially "private" sector. It requires parents to provide minimum levels of care and supervision to children. It requires children to attend school. It does this in the interest of ensuring that the private and domestic realm produces individuals who are competent and resourceful in meeting the demands of living in a liberal society: namely, to become employable, to choose wisely in markets, and to participate in the demanding task of self-government. So, while it is an important principle that the "domestic realm" ought to be protected from much collective regulation and control in the

interests of protecting freedom and autonomy, the collective cannot (and has not!) failed to notice that it has stakes in how these domestic arrangements work out.

One could also talk meaningfully about the "religious" sector. This is the sector within which individuals seek to find and express their faith in God, to learn through their faith the right ways to live in the world, and to find in their chosen religious communities the support they need to live as they want to live. It is also the sector that nourishes and channels many individuals desires to do good works -- to care for their neighbors. This realm is not important to all individuals, of course. But for some individuals, the religious sector -- the institutions that exist within it, and the activities they sustain -- are central parts of their lives.

Again, as in the case of the "domestic" sector, it might seem both odd and dangerous to think about the "religious sector" as a "social sector." As a liberal society, we have worked hard to keep this sector insulated from public scrutiny or control. We have also worked hard to keep religion confined to the private rather than the public realm. Yet, it is worth noting that this radical separation of the religious and public realms has been a relatively recent invention -- and one that seems now to be breaking down. [Check This] Just as we understand that the "domestic" realm is importantly "public" in the size of its impact on the character of both individual and collective, social life, so we now understand that the quality of religious lives that individuals and families lead can have a profound effect on the strength of our economic and political institutions. The fact that these effects occur doesn't give the society, acting through the state, the right to shape religious practices, of course. But it should make society as a whole pay attention to what is happening in the religious sphere, and to see it as having public consequences. It is also true that we are increasingly relying on religious institutions to help achieve public policy goals. This, too, brings what were recently viewed as private rather than social or public religious organizations into a dialogue with the public realm.

II. A Quasi-Private, Quasi-Public Sector: Social, Community, and Civic Life

While the "domestic" and "religious" realms create *private* spaces that are not wholly subsumed by the market economy (and have important effects on social welfare), there are also important *public* realms that stand somewhat apart from politics and government (and have important effects on the quality of both individual and public life). The idea that there are "social," or "communal," or "civic" realms directs our attention towards the space in society where unrelated individuals associate with one another. They may do so primarily to enjoy one another's company -- a desire that James Q. Wilson once characterized as "solidary" incentives. In Wilson's view, individuals are not motivated only by "material incentives" such as food, clothing, shelter, the accumulation of wealth. Because human beings are social animals, they are also motivated by a desire to enjoy the company of their fellow humans. Viewed from this perspective, socializing and joining together is something that individuals like to do -- what economists would call a "consumption good."

Sometimes, however, the "socializing" realm becomes more purposeful; the relationships established within this realm more instrumental. This transformation occurs when relationships built by socializing discussions among friends and neighbors lead to the discovery of common causes they would like to pursue together, and more or less formal agreements to pursue these goals. The purposes can be to provide assistance to those within the contracting community, or to achieve purposes that affect the well-being

of others. Once purposes are discovered and pursued collectively, Wilson observes that the association is held together not only by "solidary" incentives, but also by what he calls "purposive" incentives: the satisfaction that would come from achieving a collective purpose together. At this stage, one might say that the "socializing" realm has become part of the "civic" realm.

What is unique about these "community" or "civic" arrangements is that they achieve purposes that could be called "public" or "collective" in the sense that they help aggregates of individuals who are not linked to one another either through kinship, domestic obligation, or formal economic contracts. They may also be "public" in the sense that when the actions taken by such associations are focused on doing good for others, the might "relieve the burden" that would otherwise fall on government. They may even be public in the sense that the members share citizenship in some political/governmental community. Yet, they remain "private" in the sense that they are rooted in voluntary agreements among individuals. More particularly, they do not depend on the powers of government to coerce others to help accomplish the goals important to members.

Note that once a set of informal relationships have hardened into agreements, or become a formal organization of some kind, then that organization takes on an institutional as well as functional role. It can accumulate and own property. To manage the property, it may need a governance structure. It may decide to acquire a legal personality and incorporate. As a durable, on-going institution, it may attract new members who are attracted to the formally established purposes of the organization as well as continue to hold the founding members of the organization who first created the enterprise out of the "primeval soup" of their shared conviviality and purposes.

Indeed, sometimes organizations of the "community" and "civic" realm do not arise through the organic process described above. They emerge, instead, as the invention of a single individual who articulates a purpose, creates an organization to pursue it, and then seeks members to participate in it. That purpose could be socializing. It could be a bridge club, or a local theater group. But it might also be a cause of some kind: a soup kitchen, or a movement to collect toys for children at Christmas. Once created, the organization might well create relationships among members that are like those that arose in the organically created groups described above. The fact that an association began with one person's desire doesn't necessarily mean that it could not eventually acquire the qualities of solidarity and shared purpose among individuals who were attracted to the vision.

III. The Political Realm

Sometimes the "civic" or "community" realm becomes an important part of the "political realm." This occurs when groups that started as neighbors helping one another, or banding together to help others less fortunate than themselves, decide that they could best offer their aid by persuading the body politic that the powerful instruments of government ought to be deployed to achieve the purposes they hold dear. This may be particularly true at local levels as community organizations discover they cannot achieve their purposes without engaging larger political communities. But it can also be true at the national level when important values become rallying points for individuals across the nation. At this point, things that begin as associations become important in shaping

the "political" realm as well as the "civic" and "community" realm. It is hear that the rich fabric of pluralist political life is woven.

The political realm is not limited to group politics, of course. There is voting for candidates which is often viewed as an individual, private act even though it simultaneously constitutes an important collective, public act. There is also, increasingly, voting on referenda. These, too, can be seen as individual, private acts, but they are even more obviously and directly connected to collective, public life. Referenda give individual citizens the chance to speak directly on social conditions they would like to see realized.

Insofar as the political realm engages individuals in articulating and pursuing collective purposes, it is similar to the civic realm. What distinguishes the political from the civic, however, is that in the political realm, the object is eventually to get ones hands on the powers of the state, and to use those powers to advance one's purposes. In the civic realm, the goal is not necessarily to use the powers of the state, but instead to use the attractiveness of the cause, and the powers of moral suasion to induce collective action.

IV. Re-thinking the Private/Public Distinction

Note that what I have characterized here as the "domestic," "religious," and "community" or "civil" sector could all be thought of as part of the larger "private sector" -- the part of society that is *separate from government*. These sectors all have a "private" aspect in that: 1) they emerge from the individual desires; 2) are protected to some degree from government regulation and control; and 3) rely on voluntary rather than coerced action.

Yet, these sectors could also be seen to be part of the "public sector." This is most obvious when we are looking at the "civic" and "community" realms, since these associations knit individuals together into collectives, and (whether they are serving one another or others) often perform functions and achieve purposes that would otherwise be performed by government. The only way in which these are not "pure" public organizations is that they lack the formal power of government to tax and regulate (though note example of BIDS). They also seem to be part of the "public sector" when the groups become politically active, and seek to use government powers and assets to advance purposes they have judged to be important. Then, they form part of the institutional underpinnings of local, state, and national politics.

When one is looking at the "domestic" or "religious" sectors, it is less obvious that these are part of the public sector. Indeed, as noted above, the whole point of a liberal society is to leave these sectors outside the "public realm." The aim is to ensure that individuals can live their lives, form their families, raise their children, and worship as they please, and that no particular idea about the "right way" to do these things can be enshrined as state policy, and enforced through state action. Yet, because the domestic and religious sectors are simultaneously the crucibles within which individuals form many of their views about individual and social virtue, and since increasingly churches are active both in articulating political goals and helping the government meet social objectives, and since much social policy focuses on failures of development and care that occur within the domestic sector, these sectors cannot be as neatly separated from the public realm as we would like.

In short, the existence of these sectors, each having profound impacts on the others, confuses the picture of a "pure private" and a "pure public" realm. There are important *public* aspects of *private* life. Indeed, some of the most important features of our public life -- our constitutional commitments to liberty and privacy -- are designed precisely to protect and support private life -- domestic, religious, and economic. The paradox is that in order to protect individual liberty, we have to have enough of a collective life to establish and enforce this agreement.

Moreover, between individuals and families on one hand, and the state on the other lie important social institutions providing opportunities for collective action. There are also forms of co-operation that are built on exchange, and others that are built on personal loyalty and commitment, or shared purposes and visions. These different incentives for co-operation are not held uniquely within one sector or another, but are, instead, blended within sectors. Families are sometimes held together by exchange as well as love and mutual obligation. The performance of private sector firms is often enhanced when exchange relations are supplemented by feelings of loyalty and commitment to a cause. Political movements, if they are to be sustained and get to an appropriate scale, often have to supplement commitment to the cause with enough financial support to sustain their key managers and workers. So, the image of a simple, two sector society needs some revision if it is to reflect the social reality that we individuals now inhabit, confront and shape through our individual and collective activity.