

Transaction
SOCIAL
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symposium: the politics of philanthropy

Stock Market for Nonprofits

Howard A. Husock

When questions arise as to the extent and structure of the U.S. welfare state, the focus of discussion is typically on cash assistance and social insurance programs. That leads to debate about social security pensions, temporary assistance for needy families (“welfare”) and government health insurance programs (Medicaid for the poor and Medicare for the elderly). But the welfare state, properly understood, has developed into much more than such programs. It extends to include an extremely wide range of so-called “social services”—efforts aimed at ameliorating individual and family problems in which society believes it has an interest or obligation. Government may both fund and operate such programs or contract with others to provide such services. These include interventions to prevent child abuse and provide foster care placements for children from dysfunctional households (“child protective services”); job training, for those without the skills or habits to find work; substance abuse counseling for drug addicts and alcoholics; early childhood programs (such as Head Start) for children from low-income households—and dozens if not hundreds more such efforts. Indeed, the federal Department of Health and Human Services reports that its Administration for Children and Families alone supports no less than sixty programs for “needy children and families”; in 2005, it disbursed \$12 billion to support such efforts, spending complemented by additional state and local program spending. A combination of federal funding and statutes provides for and governs services that are delivered either by other levels of government or by private contractors, paid by government.

It was, of course, not always so. Prior to the New Deal, not only did private charity play a key role in providing temporary income support for the destitute but it played a central role, as well, in the provision of social services. Although states and localities had historically

operated orphanages, asylums and poorhouses, the predominant role of government in funding or providing social services more generally did not emerge—as with so much of the American welfare state—until the passage of the Social Security Act in 1935. Notably, Title V of that act assigned to the federal Children’s Bureau the role of making “grants to the states for maternal and child welfare,” thus establishing the pattern that has continued.

Robust public debate has developed about whether other parts of the New Deal still make sense—such as whether old-age pensions might be better structured (including the possibility of privatization of accounts) and health insurance might better be purchased through individual tax-exempt medical savings accounts rather than being controlled through a government insurance and reimbursement schema.

Social service programs, in contrast, have not, by and large, attracted similar attention. The question of the role of government in providing or paying for social services has appeared to be a settled one—with the open question relating only to how best to achieve efficiency and effectiveness. Indeed, the dominant role of government in providing or paying for such services emerged to no small extent because of pressure from service providers themselves; beginning in the early twentieth century, they argued that they could not reach all those in need without ongoing taxpayer support as core funding. It was assumed, by groups such as the Child Welfare League of America, that government-supported services would be at least as good as their private, often religiously inspired predecessors except that they would be more nearly universal in their reach and more standardized and “professional” in approach—and thus preferable. (It was assumed, as well, of course, that social services could not be run on a strictly, private for-profit basis for the fundamental

reason that beneficiaries are not in the position to pay for the services received.)

But should this, indeed, be a settled question? Or is it possible to imagine a modern society in which an array of social services would be provided on a large scale through privately funded, not-for-profit charitable organizations? There are reasons, in my view, to think that this is not an outlandish idea, at least as a direction toward which to head. But contrary to implications in the work of some who prefer the pre-New Deal charitable world, it would hardly be a simple approach to implement. In considering the idea, it is worth examining closely the advantages and disadvantages of three configurations: government provision of services, government contracting for services, and independent, philanthropically supported services.

Volunteer-based Approach

If there is any one figure associated with the idea of rolling back the welfare state for social services, it is Marvin Olasky of the University of Texas, author of the 1992 book *The Tragedy of American Compassion*. Although focused on the history of cash assistance and its potential to encourage dependency (thus, its introduction by Charles Murray, author of the seminal welfare reform treatise, *Losing Ground*), it also addressed the history of direct intervention in the lives of the disorganized poor (the so-called “pauperized,” as distinguished from the merely unemployed or disabled). Olasky was suspicious not only of government-provided services but even of those provided by professional social workers employed by large pre-New Deal organizations such as settlement houses, established by the middle classes in poor neighborhoods. Optimal interventions in the lives of those who need assistance to cope with the demands of a modern society would, in Olasky’s view, necessarily be personal—based on what he calls “affiliation” and “bonding.” The friendly visiting (in which the affluent visited the homes of the poor) of the mid-nineteenth century, often (but not always) undertaken because of a religious calling, would thus be ideal, in his view. Not only was cash relief an inducement to dependency, in Olasky’s view, but it was “stingy—stingy in human contact, stingy in its estimation of what human beings made after God’s image were capable of doing and becoming.”

Although he acknowledges that large nineteenth-century charities employed some professional managers, he understands their chief role to have been “to

coordinate the activities of tens of thousands of volunteers who provided food, clothing, fuel, shelter and employment, supported free schools and kindergartens, organized sea excursions and summer camps, staffed free hospitals and dispensaries and constructed missions and reformatories, libraries and reading rooms.” Such volunteers, says Olasky, “in essence, became new family members” for those they were helping. Thus, Olasky, crucially, quarrels not only with the extensive economic benefits of the contemporary welfare state but also with the concept of the “helping professions.” Legions of volunteers are at the core of his back-to-the-future version of a post-welfare state society. Neither a free-market approach to poverty nor one based on government intervention, he writes, “emphasizes the crucial role of truly compassionate individuals and groups in the long fight against poverty.”

A related view has been expressed by Northwestern University’s John McKnight who, in his 1995 book, *The Careless Society*, takes what might be characterized as an even more libertarian view but which is also anti-professional. It is McKnight’s belief that communities themselves have self-regenerating properties that will address individual problems that hold people back. These self-healing properties, as it were, have been undermined, in McKnight’s view, by the intervention of social service professionals. His *bête noire* and representative example is so-called “grief counseling,” therapy offered by professionals in the wake of unexpected deaths. Such services certainly deserve opprobrium for their saccharine character but McKnight views them as pernicious, as well, for undermining what are said to be inherent, independent community capacities to cope with loss. McKnight, in a sense, goes Olasky one better—arguing that interventions, whether by amateurs or professionals, are both unnecessary and counter-productive, when spontaneous community institutions are allowed to flourish.

There is much to recommend both the views of Olasky and McKnight as ideal types. They provide little guidance, however, as to how contemporary American society might move toward their ideals—or even, less grandly, how an ineffective state role in social service provision might be diminished or even phased out. Neither acknowledges that Americans—and Europeans even more so—have been powerfully acculturated to look to government to address an extremely wide range of social ills. Government action is, indeed, the default mode—whether the problem is child abuse,

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ill-nourished pregnant women, the displacement of manufacturing employees—or any of hundreds of problems that have served as the focus of media attention and subsequent government action. The polity expects it; mass media often demands it. And no one can doubt that at least some good sometimes comes of it. The idea of abruptly calling a halt to government-funded social services and issuing a call to volunteers and philanthropists, or neighborhood groups to take their place might, arguably, be desirable—but can't currently be considered at all realistic.

One thinks here of the concept of path dependency—the evolutionary economics idea that emphasizes the powerful long-term effect that the choice of one fork in the road has on subsequent choices. We simply do not face a *tabula rasa* (a blank wall). Indeed, if the history of American public policy since the election of Ronald Reagan makes anything clear, even the election of professed small government presidents is far from a guarantee of smaller government. Indeed, it can be argued that the only significant effect of the rise of social conservatism as a political force has been, not to shrink government social programs, but, in some ways, to tilt them in a somewhat more socially conservative direction. Thus, for instance, time limits have been placed on public welfare cash assistance and work requirements imposed. This is what New York University's Lawrence Mead has called the new paternalism and it is not limited to the United States. The Mexican government, for instance, makes some assistance for poor families (what it calls its Progresa program) contingent on their children's regular school attendance. Indeed, to date, the most important impact of the work of Marvin Olasky—who is based at the University of Texas and had the ear of then-Governor George W. Bush during the latter's 2000 campaign for president—has been to expand the reach of federal social service grants to include more "faith-based organizations." Thus, the budget of the Administration for Children and Families now includes \$141 million to assist "faith-based and community organizations" and a "compassion capital fund," which offers grants just to help congregations and other "grassroots" organizations learn "to gain access to funding sources, administering programs, expanding services and replicating promising approaches."

This is a long way from legions of volunteers "bonding" with the poor. One wonders, as well, whether volunteers in sufficient and reliable numbers would

likely come forward to help—a key issue if the polity is to be assured that those with problems would have some likelihood of being assisted. But such practicalities aside, one wonders about the wisdom of Olasky's and McKnight's approaches even if they could be implemented. It seems hasty, to say the least, to dismiss the accumulated wisdom of such professions as social work, social psychology, and psychiatric social work, as well as the importance of straightforward teaching skills, in dealing with those whose behaviors make it difficult for them to participate productively in the economy. Moreover, it seems politically unrealistic to believe that the public expectation of what Olasky refers to as a "universalistic" (service for all in need) can simply be wiped clear.

Government Social Services

Does this mean, then, that the paradigm of government as the central provider of social services must simply be accepted as the verdict of history? There are powerful reasons to be concerned about such a view. First—and most important, it is far from obvious that government, or those through whom it procures services, are consistently doing a good job. Take, for example, the high-profile federally funded preschool education program known as Head Start—conceived as a "compensatory" effort to help disadvantaged children become better prepared for school. Despite a wide reach and generous funding, it has by many measures failed, notwithstanding enormous expense—an estimated \$100 billion since 1965 to serve 900,000 children a year at a current cost of \$9 billion annually, money spent through local nonprofit groups which actually mount local Head Start programs in myriad church basements and community centers. A 2005 federal study, reporting on a 383-site randomized experiment involving 4,600 children confirmed the findings of earlier, smaller evaluations that Head Start has had disappointingly small impacts on disadvantaged children. As the University of Maryland's Douglas Besharov summarized: "No gains were detected in such important measures as early math learning, oral comprehension, motivation to learn or social competencies."

It is worth noting that such an extensive evaluation of a publicly funded social service program is rare because of the expense involved—and because performance measures for many services are frequently difficult to devise or to agree on, even as mandates for measurement of public agency performance have

become increasingly common. How should we measure the effectiveness of child protective services, for instance—by a reduction in the rate of reported child abuse or the number of children able to remain with their biological parents and avoid expensive foster care? Still, there are reasons to think that public social service efforts routinely fall short. For instance, a recent review of state child welfare programs by the federal Department of Health and Human Services found that not a single state complied fully with federal standards for such programs; the study found that caseworkers failed to visit frequently enough, children failed to receive promised health services, and that interventions failed to halt abuse or neglect. Such studies reinforce the impression left by the recurring horror stories of child abuse and even death among children being overseen by publicly employed state and local social workers. It reminds us that the fundamental concept that public provision of such services would be of universal reach and high quality was itself a leap of faith, rather than a change based on the sorts of measures and evaluations we might prefer today.

Such poor report cards for public performance remind us, as well, that there may be little or no penalty for such shortcomings. Head Start has continued to be funded and may even expand; child abuse horror stories might plausibly lead to increased budgets, not reductions—in both instances, mere statement of the problem, not the proven effectiveness of agencies tends to drive government appropriations. The influence of unionized public sector employees affects budget appropriations, as well.

It is not as if we have not tried to improve the performance of public and publicly funded social service providers. The hope of improving the efficiency and effectiveness of such service delivery has increasingly led, in recent years, to government contracting with private organizations—either for-profit or nonprofit, to provide services. Such contracts allow governments to set “milestones”—performance goals in such matters as the number of unemployed persons placed in jobs for certain periods of time—and to control costs through contracts whose price can be fixed. This is what Shelia Kamerman of the Columbia University School of Social Work has described as “the new mixed economy of welfare: public and private.” There is a good deal to recommend this change. It is problematic for government to evaluate and regulate that which it operates itself (an important lesson manifest in the

poor environmental records of communist China and the former Soviet Union, for instance) but, by separating those functions, government may be better able to control program cost and quality.

Nonetheless, some of the key problems that plague government-operated programs continue when government contracts for services. Because there are not likely to be a plethora of experienced service providers for such specialized tasks as, say, foster care placement—as well as organizations that have mastered the technicalities of applying and spending public funds—it is difficult for government not to renew contracts even if performance is less than stellar. Moreover, agreeing on how to measure success and to quantify it as a contractual matter remains as challenging in framing contracts as in setting goals for public employees. As Ruth Hoogland DeHoog and Lester Salamon have written, “measurement of performance and success is problematic, or at least not readily agreed upon, even by professionals. Therefore it is more difficult to reward and punish contractors because so many factors may be outside their control.”

It is far from clear, as well, what form effective sanctions for poor performance might take, absent the unlikely event of individual employee dismissals. The federal Department of Health and Human Services has warned states, for instance, that unless they meet federal child protection standards, they face fines—a prospect which might reach down to the contractor level and lead to improved service but which also might make service worse, by reducing available funds. Nor are sanctions likely to be the outcome of budget politics in which a program’s worthy goals can be expected to be emphasized by its administrators and political sponsors. Head Start, for instance, can be viewed as a program provided by contractors—typically local nonprofit community groups that receive federal grants. Its providers have not been punished for its demonstrably poor performance—indeed, just the opposite. The budget has grown. Moreover, it is far from clear that the character of public or quasi-public employment will attract those for whom service would be a sort of personal mission and to which they would bring a deep commitment.

Not-for-Profit Social Services

The record of government-provided services, and the question of the extent of public versus privately provided services, plays out today in a dramatically

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changing environment for philanthropy. While government projects long-term deficits, philanthropy is projected to grow at an unprecedented pace. In recognition of the wealth of soon-to-retire boomers, the Boston College Center on Wealth and Philanthropy estimates that philanthropic giving will total some \$6 trillion between 2003 and 2050. Already, over the past ten years, there has been an 88 percent increase in the number of foundations. At the same time, a wave of capable persons has come forward to establish effective new social service organizations, based on new ideas and with little or no government support. Indeed, it can be argued that we are now in a period unprecedented in the post-welfare state period for the emergence of such people, who have started new types of job training, mentoring, and immigrant assistance efforts. The term “social entrepreneur”—for those who establish such organizations—has entered the language and become *au courant* on college campuses, where courses and research centers (Harvard, Duke, Stanford) on the topic have been established. Indeed, the past ten years have seen 67 percent growth in the overall number of U.S. nonprofits. Thus, the stars are aligned for private, nongovernmental organizations to play a much larger role in assisting those in need.

Such organizations could, of course, simply continue to augment the core services provided by governments or those with whom they contract. But in light of government’s problematic performance, it is worth considering whether privately funded nonprofits could begin to replace government as providers of social services. Let’s imagine, then, an America in which there emerged a wide range of such “brand name” service organizations, a society in which such established, private service organizations as the Red Cross, Salvation Army, and Big Brother, Big Sister were augmented by a new generation of private agencies, much as chains or privately managed charter schools (KIPP [Knowledge is Power Program], Aspire) are emerging. One key question about such a prospect presents itself immediately. Would service organizations that relied on private donations—whether from individuals or foundations or both—prove more accountable for their performance than their public or publicly funded counterparts? There is reason to believe the answer to that question would be yes, notwithstanding the underlying legitimacy that public agencies have because of their ties to elected officials. It is hard to imagine a private organization, for instance, surviving the bad publicity

and subsequent fall-off in donations that might follow the death of children in its care, for instance. Yet the *New York Times* reported that, over the past ten years, from 22 to 36 children have died each year while under the watch of the city’s Administration for Children and Families. Appeals to “save the children” would not so likely lead to more funding for an organization without a track record of effectiveness. Indeed, the possibility of organizations being punished for poor performance was demonstrated by the sharp drop in donations to the national United Way organization following corruption charges involving its executive director.

A case can be made that the truly independent, philanthropically supported nonprofit sector can sidestep some of the pitfalls associated with current public sector performance. An expanded independent nonprofit social service sector would be likely to attract committed employees and volunteers. This was certainly the case in the pre-New Deal era when what we would now call faith-based groups (Catholic Charities, Jewish Family Service) relied on donations and committed employees and volunteers. Secular groups—such as the extensive network of early twentieth-century settlement houses inspired by the nondenominational social gospel groups and established to assimilate immigrants—were able to attract the idealistic, as well (although, as Olasky points out, over time, their legions joined the push toward government provision). More to the point, however, the willingness of Americans to answer a call to service continues to reveal itself to be strong, as reflected by the emergence of major new “brand name” nonprofits such as Teach for America which trains high-achieving college students to teach the disadvantaged, Prison Fellowship, which organizes committed Christians to counsel soon-to-be released prisoners, and Habitat for Humanity, which draws on a wide range of Americans to assist in building homes for low-income households. Notably, the latter two organizations receive minimal government funding, and, although Teach for America teachers are paid by local public school districts, the organization mounts extensive selection and training programs which rely on private monies.

What’s more, the creativity associated with the establishment of so many independent social service organizations in recent years suggests that an independent social service sector might well be the source of effective new ways to deal with apparently intractable social ills. For instance, it is hard to imagine a govern-

ment program re-establishing orphanages for abused and abandoned children. (Indeed, Newt Gingrich was pilloried for suggesting the idea when he was Speaker of the House). But one could imagine a consortium of African American or Latino churches with the right sort of leadership and management able to bring back, to good effect, institution-based care (probably not called orphanages) for children of troubled parents. I encountered an acknowledgement of the creativity of the independent nonprofit sector during a visit to Hong Kong. There, the government provides extensive “subventions” to established nonprofit organizations for the full range of social services based on conventional methods. I asked officials what would happen if there were social problems not anticipated by the government—and was told that such ills would be handled by the “non-subserved sector,” that is, nonprofits relying on philanthropic support. Indeed, one of the historically appreciated values of a robust independent nonprofit sector in a democracy is the extent to which it allows approaches favored by only a minority—and thus not likely to be government-funded—to be implemented.

But notwithstanding all these attributes, a fundamental question arises: Can a newly invigorated and expanded independent social service sector be more than a collection of small, boutique programs, or pilots auditioning for government support? If such a sector is to play a bigger role in American life—and government-funded programs a smaller one—how might that come to pass? In my view, this can only occur if the new nonprofits find ways to “go to scale”—that is, to grow to the point that they become brand names in American culture. This does not mean centralization of operations. Popular groups such as the Red Cross and Salvation Army, for instance—neither of which relies on government funding but are accepted by Americans as just as good or better than government in dealing with disaster relief and homelessness, respectively—are based in local chapters implementing programs in a manner attentive to local conditions. But absent a sense that there is an organization big enough to handle a big problem, it is unlikely that contemporary Americans would be content not to call for government action. It has, for instance, become plausible to argue that government should reduce its role in subsidizing housing construction because of the emergence of Habitat for Humanity—but only because Habitat has more than a thousand chapters and has become one of the largest homebuilders in the United States. Just as

Wal-Mart has replaced the corner store and agribusinesses have replaced the small farmer, an independent nonprofit social service sector—if it’s to convince Americans it’s got what it takes to do the job—would have to “scale up.”

The fact that there is a sharply increased pool of philanthropic capital becoming available makes such a prospect plausible. There is reason to believe, as well, that donors are increasingly interested in supporting organizations that provide direct services to improve the prospects of the disadvantaged, rather than supporting political advocacy aimed at influencing government spending—which had become prominent in the wake of the 1960s. That era’s trend toward policy advocacy is reflected in the data compiled by American Association of Fundraising Counsels and published in its annual report entitled “Giving USA,” which, since 1956, has offered “a compilation of facts related to American philanthropy.” A review of its annual reports, from the period 1964 through 2004, reveals that grants for such work as influencing public policy, including promotion of civil rights, grew from 2 percent to 5 percent of all giving, increasing from \$2.38 to \$12.96 billion (in constant dollars). Indeed the category of such grants—known as “public-society benefit” grants—did not even exist when the Association first began its work. Notably, however, the long increase in such advocacy-oriented grant-making has leveled off since 2000—it grew more than 300 percent from 1975 through 2000 but has grown only 2 percent in the time since. In contrast, in 1956, the Association tracked giving for “welfare, recreation, character-building agencies, and other privately supported services for the common welfare”—a category no longer to be found in its report but which should perhaps be reinstated.

Moreover, the new generation of “social entrepreneurs” has shown an ability to cover significant segments of their organizations’ costs with income associated with the services they provide. For instance, a job training program in Boston called Year Up has successfully convinced major health care and financial firms to cover almost half of the program’s costs, in return for the right to hire graduates. College Summit, a multi-city program which identifies disadvantaged high school students with the potential to attend college and helps them improve their writing skills such that they can successfully apply to college. Both are major organizations that have already expanded to a number of cities and aspire to expand further. They do

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not cover all their costs, nor should they strive to do so; if they did, they would simply be a standard for-profit business. But neither are they content to rely solely on program grants; they seek support for ongoing services whose positive effects show measurable results. Thus, the trillions in philanthropic dollars may help leverage further financial support.

A Nonprofit “Stock Market”

Yet if effective organizations are to grow to the point that Americans feel comfortable allowing government to withdraw, we may have to develop a formal system—in some way analogous to the stock market—for philanthropic capital to be matched with effective organizations—not just to those that have identified an emotionally appealing cause. This is no small challenge. So-called social entrepreneurs today must devote a great portion of their management efforts simply to finding donors. This is true, in part, because philanthropists (both foundations and individuals) have come to believe that their support should come with a time limit—after which an organization should become “self-sustaining” (an implicit push toward government). Moreover, as George Overholser of the National Nonprofit Financing Fund has observed, generally accepted accounting procedures for nonprofits do not distinguish between an investment meant to help an organization develop a new program and a grant meant to support an existing, effective program. In contrast, in the private for-profit sector, private venture capital and equity investments are clearly distinguished from revenue realized through the sale of a successful product. Overholser—a founding member of the financial services firm Capital One—argues that donors must be taught to distinguish between “build” capital and “buy” capital—the former meant to support the development and refinement of a program until it is a proven success, the latter meant simply to allow an organization to provide, more broadly, a service it has already demonstrated it can deliver and which is useful.

Overholser goes so far as to imagine a quasi-stock market in which so-called venture philanthropists might put their funds at risk to support a social entrepreneur’s new idea and, if the idea proves successful, might be reimbursed—with interest—by a group of philanthropists less interested in taking risks than in supporting a successful program and helping it expand. Such a philanthropic “market” would require refined measures of effectiveness, as judged not by service providers

themselves but by neutral outsiders—the equivalent of bond rating agencies, which examine financial sustainability, or Underwriters Laboratories, which vouch for the safety of products. Such existing on-line rating services as GuideStar, which have already developed, are useful but limited; they do a good job measuring such things as the cost of nonprofit administration—but this is a figure more relevant in judging philanthropies which themselves make grants (e.g., American Cancer Society or March of Dimes), rather than those providing services directly. Robert Steel, Deputy Treasury Secretary and a former vice chairman of Goldman Sachs, has developed a list of the attributes of a nonprofit he would judge ready for investors. It would, he suggests, have to demonstrate that it had a clear purpose (“mission”) and a succinct approach (“business model”) to fulfill it; show both good management and good governance (e.g., an active board); provide measurements showing its work leads to good outcomes; and demonstrate what he calls “interest and enthusiasm for reporting regularly” on its progress. These are similar, in Steel’s view, to the attributes that an investment bank looks for in its “due diligence” for a private, for-profit firm.

Researchers have successfully worked together to show that the sort of approach they envision can work. \$15 million has been raised to support the expansion of the Washington DC-based organization College Summit, whose “business model” calls for it to raise local money when it expands to a new city; the venture capital raised for it will allow it to expand even before it attracts local donors. College Summit stands a chance of becoming a household name in the next five years. If it does so, it will demonstrate that an important social service can be provided without a special federal program to support it—and that philanthropy can make it possible for effective programs to be more than small and local.

Creative new, privately funded not-for-profit service organizations would clearly be a useful complement to government-supported services. But might major social services, currently government funded, migrate, over time, to an independent nonprofit sector? Such a change is difficult to imagine in our present circumstances but should not be entirely ruled out, if the independent nonprofit service world can demonstrate its effectiveness and thus garner public support. Government could spin off social service agencies as it has spun off state-owned utilities, providing declining amounts of support as philanthropy and fees for services increased.

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A number of objections to such a prospect are likely to emerge:

“Small is beautiful” conservatives will object that large nonprofit bureaucracies would be no better than government bureaucracies. In my view, the likelihood of attracting idealistic employees would be far greater; they could, moreover, be complemented with volunteers in a way that government services could never be. Moreover, if conservatives do not like the idea of social service agencies with a complement of professionals, then they might just as well resign themselves to government doing the job. The polity is just not going to accept the idea of small church groups—and other legions in the armies of compassion—being responsible for the broad delivery of social services.

Democratic theory might have it that voters would punish elected officials on whose watch publicly funded social service agencies perform poorly. Thus, the officials would be accountable and publicly funded services would be a superior model. As a practical matter, however, it is hard to point to an instance in which social service provision is a major electoral issue. This is not to say, however, that individual commissioners or agency heads might not be forced by elected officials who have appointed them to resign, in the wake of performance problems. It is hard to assert, however, that the dismissal of an executive director by a mayor or governor differs qualitatively from the dismissal of an agency head by a board of directors, in the wake of bad publicity—or a governmental investigation. Indeed, government may play a more effective audit and investigative role than a service provision role.

What happens to those in need of services when a private nonprofit loses public confidence, and thus funding, in the wake of poor performance? Absent more

than one provider, the service might not be provided. This is true enough. It is, however, quite plausible that multiple providers of services would emerge—perhaps focusing on different geographic areas, or providing different approaches. Indeed, in many cities both the Salvation Army and the Rescue Mission maintains operations for alcoholics. It is true that the American Red Cross is the only major supplier of disaster relief services—but its lack of competition may reflect the fact that, uniquely among nonprofits, it has a charter granted by the United States government and is considered to be a “a federal instrumentality,” owing to its charter requirements to carry out responsibilities delegated to it by the federal government.

Critics of what can be called a privatized system of social service provision might well fear the lack of a guarantee that all in need will be served. This raises what might be called the dilemma of universalism. It is true that the government represents that it will serve all, not just some, abused children. But if such service is mediocre or worse, are they truly being served? This reminds one of the workings of the British and Canadian national health care systems; all citizens are entitled to health care but there is nothing that guarantees service that is timely or of high quality.

Finally, it is well worth keeping in mind that the decision to effectively replace private provision with publicly funded provision of social services was not made because social science had demonstrated the superiority of a government role. It was simply assumed that such an approach would be better. That things have not self-evidently worked out that way makes a search for alternative approaches both important and urgent.

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