



*Neoliberal Restructuring and the Third Sector: Reshaping  
Governance, Civil Society and Local Relations*

B. Mitchell Evans  
John Shields

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350 Victoria Street,  
Toronto, Ontario, M5B 2K3  
Tel: (416) 979-5000, x 6739  
Fax: (416) 979-5124  
cvss@ryerson.ca

<http://www.ryerson.ca/cvss/work.html>

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## ***Introduction***

Until recently the discipline of Public Administration, and the Social Sciences more generally, have been remarkably silent about the role of nonprofit organizations in the provision of 'public services' and their contribution toward public benefit. In fact, an understanding of the place which nonprofit organizations play within society has been an ignored subject matter; the state of affairs is such that one commentator has tellingly referred to the voluntary realm as the "invisible sector" (Hall 1997: 74).

A number of developments have subsequently emerged which have served to shift attention toward the nonprofit or third sector. First, has been the growing importance attached to the idea and practice of alternative service delivery and 'partnerships'. Second, has been the related desire to shrink the size of the formal state and its apparatus. The third sector has been heralded as the way forward by neo-liberal advocates of political change. Third, is the increased policy attention placed upon envisioned threats to civil society, social cohesion and the stock of social capital, and the important contribution which nonprofit organizations are held to play in securing their health.

The third sector has been accorded a central place in the new governance models. Nonprofit organizations are being asked to perform an enhanced role not only in the delivery of 'public' services but also in a restructured state-societal relationship. The new public management has been the administrative device utilized to implement these changes at the public administrative level. Hence gaining an understanding of the nonprofit sector, its changing role within society and its linkages to public administration and public policy has become increasingly salient to the discipline.

The central point to be made in this chapter is that neo-liberal restructuring assigns a key role to the third sector as an agent of the state in the production and delivery of 'public goods'. The contract relationship which is being developed between the state and nonprofit organizations, however, is serving to transform the third sector, moving it away from its core mission, commercializing the sector's operations, and compromising its autonomy. These developments have profound implications for inclusive citizenship, the health of civil society, the development of social capital, and the enhancement of social cohesion.

## ***What is the Third Sector? Size, Scope and Importance***

Nonprofit organizations in Canada have a long history of assisting individuals, families and communities in a multitude of ways. The services offered by these organizations contribute significantly to the social, cultural, economic and other dimensions of the health and welfare of Canadians (Voluntary Sector Task Force 1999). Nonprofits often fill special needs that private businesses fail to satisfy and government programs have not covered. Nonprofit organizations play a strategic role in "helping Canadians help Canadians".<sup>1</sup> Broadly speaking nonprofit organizations are bodies that serve either the public or a defined membership such as a professional association (Quarter 1992: 42).

There is to be sure a basic lack of precision and some measure of confusion which surrounds the conceptualisation of nonprofit organizations (Salamon 1995: 51). Moreover, many

of the terms employed to identify the sector are catch-all phrases which attempt to capture that area between the private and state sectors, rather than concepts which embody a distinct approach to nonprofit organization (Quarter 1992: 1). There is, however, an emerging sense that “a third complex of institutions, a definable ‘third sector’ occupying a distinctive social space outside of both the market and the state” exists (Salamon and Anheir 1997: 1-2).

The commonly held defining characteristics of the third sector are that the activities of its organizations “are ‘privately controlled yet do not exist primarily to earn a profit. ... [Third sector/nonprofit organizations] exist primarily to serve others, to provide goods or services to those in need’ and exhibit some aspect of voluntary action, behaviour or shared commitment of purpose” (Scott 1992: 35-36) — they are privately run and constituted bodies although they often interact closely with the public sector proper and work for the public good. Key concepts which serve to give expression to the distinctive values which set the third sector off from the market and government sectors are philanthropy, altruism, charity, reciprocity, mutuality (Shields and Evans 1998: 89) and the ethic of giving and caring. This has been a sector concerned with meeting “the needs of strangers” (Ignatieff 1984) and offering the “gift relationship” (Titmuss 1970).

Third sector organizations may be classified into four basic categories. *Funding agencies or fund-raising intermediaries* (e.g., the United Way) generally do not provide services themselves but “channel resource to those who do”. *Member serving organizations* (e.g., business and professional associations, and trade unions) are directed towards the service of their immediate members rather than to the public at large. *Public benefit organizations* (e.g., nursing homes, day-cares and other social service organizations, cultural institutions) “exist primarily to service others, to provide goods or services (including information or advocacy) to those in need or otherwise to contribute to the general welfare”. *Religious organizations* (e.g., churches and religious societies) are involved in the pursuit of “essentially sacramental and religious functions” (Salamon 1995: 54). The sector embraces a considerable diversity of organizations with varying aims and perspectives, hence, attempts to characterize them in a monolithic manner are misplaced.

The size, scope and economic contribution of the third sector is considerable although difficult to accurately measure. The number of active registered charities, the component of nonprofits for which we have the most complete data, in 1996 stood at 74,027 (Day and Devlin 1997a: 5). There were some 15,000 more charities by the mid-1990s than existed in the 1980s and three times the number than there were in the 1960s (Panel on Accountability and Governance in the Voluntary Sector 1988: 4). Each year about 200 new charities are added (Van Rooy 1999: 10). Currently if we count all nonprofit bodies, whether or not registered as charities, the total number of organizations would likely exceed 200,000 (Hirshhorn 1997a: 8). Figures from the United States indicate that the nonprofit sector has expanded at a faster rate than both the government and business sectors (Hall 1997: 74; and Independent Sector 1998), and this would also appear to be the case for Canada as well.

The GDP is a reasonably good measure of the value generated in the for-profit market sector of the economy. However, “it fails as a measure of overall welfare because of the many nonmarket activities that are not included in its calculation. The contribution of household work and indeed of any unpaid work [voluntary labour] are among the GDP’s most serious omissions” (Day and Devlin 1997a: 31). Because of the widespread use of the GDP measure, it is worth using it to gauge the nonprofit sector’s value, recognizing, however, its considerable limitations

as applied to the third sector. Canada's nonprofit sector conservatively accounts for 4% of the country's GDP, and at least 10% of the value of services offered in the area of health, education and social services (Day and Devlin 1997a: 73, 33). In terms of revenues the third sector is three and one half times the size of the agricultural sector and eight times larger than the transportation industry (Picard 1996: 2).

If we examine only registered charities, up to 12% of annual GDP passes through such organizations, a value of \$86 billion in 1993 (Stewart 1996: 9; and White 1996). If we exclude hospitals, universities and colleges, the annual revenues of charitable bodies rest at about \$36.4 billion (Panel on Accountability and Governance in the Voluntary Sector 1998: 4). Significantly, while the median level of giving to Canada's voluntary sector is only \$150 per year, the average value of services which individuals receive back from the sector is estimated at \$3,000 (Picard 1996: 1). Most nonprofit organizations are small, although there are some very large ones. Again, using data from registered charities reveals that fully two-thirds of them have annual revenues of less than \$100,000 and half of the charities have revenues of less than \$50,000 (Panel on Accountability and Governance in the Voluntary Sector 1988: 4).

As a source of paid employment nonprofits make an important contribution. Some 5% of the national labour force are employed within the sector and fully about 10% of service sector employees work here. The contribution of the third sector's unpaid labour is also impressive. The 1997 National Survey of Volunteering, Giving and Participating discovered that about 7.5 million Canadians freely donated their time and skills to society. The estimated actual time volunteers contributed constitutes over 1.1 billion hours on an annual basis, a number equivalent to 578,000 year-round full-time jobs (Hall, et.al 1998: 27). The financial value of volunteered labour time in 1994 was calculated to total at least \$13 billion (Day and Devlin 1997b: 63). This survey serves to profile the dimensions of a sector which is indeed substantive, adding significantly to the economic and social health of the country but which has not as of yet been widely recognized for its contribution — in this sense it is still an “emerging sector” of society (Hirshhorn 1997b).

### ***The Modern Role of Third Sector Organizations***

Third sector organizations in the post-World War II era came to perform a number of key functions within society which stretched beyond the ‘pure charity’ role of earlier decades — a role heavily informed with the social and moral regulation of society. First, the mandate of contemporary nonprofits is “to do good works”; to provide service to the community (Cappe 1999: 2). The third sector is engaged in the delivery of a wide variety of services which are both tangible (clothing, shelter, food, training, health) and more intangible (counselling, support, collective worship). While some of the service activities of the sector still fits a traditional charity model of *noblesse oblige*, much of the service provision is offered through grass roots community-based organizations that are close to the concerns and perspectives of the communities they serve.

Advocacy is a second area of nonprofit activity. In its broadest sense advocacy can take a number of forms such as public education about an issue or societal problem, or more direct advocacy/lobbying directed at improving the conditions of a particular client group or aimed at what are considered to be laws or policies that are unjust or against the public good. Third sector

organizations contribute to an ongoing “public policy dialogue” (Cappe 1999: 2). Susan Phillips makes a useful set of observations concerning the contribution of the third sector in this regard:

Voluntary organizations are first of all groups of citizens. As expressions of community, they represent the identities, interests and concerns of their communities, members and clients with a view to changing public policy, educating the broader public and influencing the behaviour of society at large. In so doing, they create and maintain political spaces in democratic discourse for their constituencies, often disadvantaged ones. In their representational capacity, voluntary organizations provide two kinds of knowledge: technical expertise about the population they represent or service they provide and popular knowledge about the concerns and life experiences of their constituencies (1995: 4).

The advocacy role of third sector organizations has been a critical one for broadening the democratic experience in the post-war period. Community groups served as institutions which facilitated involvement and voice within the political process. Governments guided by a reform liberal/social democratic framework provided funding for the advocacy role to allow “organizations of women, Natives, disabled, official language minorities and poor people to be heard among the voice of the economically powerful (Phillips 1991: 197). During the long post-war boom a publicly supported advocacy role for nonprofit organizations helped to facilitate enhanced societal inclusion.

Thirdly, nonprofit organizations can often play a ‘mediation’ role within society. That is to say, nonprofits can bring together people across a spectrum, like a geographic area involving various neighbourhoods, where they are able to work out issues and help develop a common understanding, a consensus or compromise (Scott 1997: 46-47). This ‘mediation’ role is very much an aspect of third sector organizations’ part in the building of “social capital” and the maintenance of social cohesion within society.

Social capital “refers to features of social organization such as networks, norms, and social trust that facilitate coordination and cooperation for mutual benefit” (Putnam 1995: 67). Voluntary organizations foster the kinds of relationships which enable groups of people to efficiently work together in the pursuit of their shared goals. According to Judith Maxwell, the president of the Canadian Policy Research Networks, nonprofit organizations play a pivotal role in nurturing social capital. This is important because:

A healthy stock of social capital is now being identified as an essential ingredient in the success of everything from community renewal to national industrial strategies. Such trust and reciprocity can be generated merely by people working together in the daily operations of those non-profits which feature voluntarism, giving and citizen involvement. Even as they give to others, they become more connected to their community and their country (Maxwell 1997: A25).

Social capital is also closely connected to social cohesion. In fact, social cohesion can be viewed as one of the numerous dimensions of social capital. “Social cohesion may be defined as involving building shared values and communities of interpretation, reducing disparities in wealth and income, and generally enabling people to have a sense that they are engaged in a common enterprise, facing shared challenges, and that they are members of the same community” (Maxwell as quoted in Policy Research Committee 1996: 44). Social cohesion is about “*how well institutions manage diversity and resolve conflicts by finding mutually satisfactory accommodation*” (emphasis in the original; Murray 1999: 26). Conflict is an inevitable fact of life. But societies with strong levels of social cohesion are capable of managing these differences. Social cohesion, consequently, “is the capacity to reconcile differences and discern common interests” (Maxwell as quoted in Public Policy Forum 1998: 31). A society that is cohesive is one where public, private and voluntary institutions are able to manage conflict, where institutional supports exist to foster inclusiveness, and where disparities within society are prevented from growing too wide.

A problem which modern society faces is that its institutions have lost a good deal of the legitimacy that they once held among Canadians. There has been a “hollowing out of the bridges between individuals and government” (Jane Jenson as quoted in Murray 1999: 26). However, nonprofit organizations still enjoy considerable trust/legitimacy with the Canadian public (Graves 1999: 52). Hence, third sector groups are playing an increasingly important role as bridge organizations and, according to Maxwell, “as political stabilizers, fulfilling specialized needs not covered by government programs pitched to the median voter” (1997: A25). However, rapidly advancing levels of economic polarization, marginalization and insecurity brought on by globalization, rapid technological change and severe state retrenchment threaten social cohesion. The modern paradox is one which has featured sustained economic growth along side deepening social exclusion (Murray 1999: 10; Burke and Shields 1999).

A fourth role for third sector organizations is that they help to build citizenship. Citizenship is ultimately about participation and membership in a community (Barbalet 1988: 2). In the second half of the 20<sup>th</sup> century citizenship came to be defined as social citizenship, i.e., the entitlement to basic social and economic rights associated with the welfare state as well as civil and political rights (O’Connor 1998: 184-185). Moreover, citizenship came to encompass a more active dimension involving deep participation within the community/society.

“The voluntary sector creates and reinforces citizenship by engaging citizens in the development of their communities” (Cappe 1999: 2). Third sector organizations offer “a unique way of social organizing” constructed on the values of “independence (freedom of association), altruism (concern for others), [and] community (collective action)”. Moreover, what makes community-base organizations different “is that they are as much about participation as provision; as much about citizenship as service” (Nowlan-Foreman 1996: 4).

Third sector organizations are a central part of civil society. Civil society can be conceived as occupying that space in society where “uncoerced human association” and “relational networks — formed for the sake of family, faith, interests and ideology” — occurs (Walzer 1991: 293). In this sense we might think of civil society as being the “space between official public life (government) and private life (especially the market)” (Swift 1999: 15). Civil society is often viewed as the “dynamic side of citizenship” (Marshall 1994: 56). Michael Walzer speaks to the role of a dynamic civil society in creating civil engagement and more meaningful citizenship.

Citizenship taken by itself, is today mostly a passive role: citizens are spectators who vote. ... But in the associational networks of civil society [third sector organizations] ... these same people make many smaller decisions and shape to some degree the more distant determinations of state and economy. ...

Dominated and deprived individuals are likely to be disorganized as well as impoverished, whereas poor people with strong families, churches, unions, political parties, and ethnic alliances are not likely to be dominated or deprived for long (1991: 299-300).

To date the contribution of the third sector to citizenship and civil society has been little acknowledged, yet clearly this sector has added a fuller, deeper and more meaningful dimension to the idea of citizenship and contributed to the creation of vibrant civil societies.

### ***Historical Development of the Third Sector***

One of the biggest misunderstandings has been the idea that as public social expenditures expanded in the 20<sup>th</sup> Century with the rise of the Keynesian welfare state there was a corresponding decline in other civil societal institutions such as nonprofit organizations. The idea that there exists an inherent conflict between the welfare state and third sector organizations has been most especially articulated by advocates of the political right.

Using invidious stereotypes of oppressive, rigid state bureaucracies opposed to innovative, flexible, and humane voluntary organizations, ... [they], have revived the concept of a fundamental conflict between the voluntary sector and the state. In this view, the rise of the modern welfare state has destroyed or seriously jeopardized the whole array of mediating institutions, including voluntary organizations, that were formerly available to buffer the individual from the impact of impersonal, macro-institutions such as the state ... . The result, they contend, has been an alarming upsurge in anomie and despair (Gidron, Kramer and Salamon 1992: 6).

The reality has been quite different — the state has certainly grown in both size and importance over the years but so have other institutions, including nonprofit organizations. The growth of the state has not resulted, in short, in the decline of the third sector but, in fact, has helped nurture its rapid expansion (Shields and Evans 1998: 93).

The funding of Canadian nonprofit organizations is revealing of the sector's relationship with the state. About 60 % of the funds for nonprofits are derived from government grants, with only 10% coming from individuals, 1% from for-profit corporations<sup>2</sup> and about 29% from such sources as “user fees, product sales, investment income and other fundraising activities” (Panel

on Accountability and Governance in the Voluntary Sector 1998: 4). Clearly the relationship between government and nonprofits have been more dynamic and symbiotic than conventional views would suggest.

Mariana Valverde informs us that, at least for social welfare provision, it is far more accurate to speak of the existence of a *mixed social economy* rather than a state monopoly on welfare provision. The relationship between the state and nonprofit organizations is likened to a mixed marriage — a relationship which has, because of the differences which are brought to the relationship and societal prejudices, been a difficult one to manage at times (Valverde 1995a & b; and Rekart 1993). In the *mixed social economy* social services have come to be delivered through a mixture of state and privately run and administered initiatives. Importantly many of the services are offered in combination, that is to say there is a mixture of public sector involvement or support in conjunction with the participation of nongovernmental actors (usually nonprofits and charities).

The state and third sector organizations bring various strengths to the relationship. The state is best able to offer “uniform or standardised services and entitlements on an equitable basis for all”. The state is the only institution with the capacity for societal redistribution consistent with social citizenship. By contrast nonprofit organizations are better positioned to offer services on a first come, first serve basis. They “provide individualistic services (shaped to individual needs) in a holistic way (crossing bureaucratic or other boundaries) from particularistic value bases. The values may be religious, social justice or feminist, human rights oriented or based on compassion” (Nowland-Foreman 1996: 6).

Nonprofit organizations have a number of inherent limitations which makes offloading of welfare state functions by the state highly problematic. Within the third sector there is:

... an inability to generate resources consistently or on a sufficient scale; a tendency to focus on particular groups of the population, leading to gaps in coverage and duplication of services; the vesting of influence with those in society having command of the greatest resources; and a historical association with non-professionalized approaches in coping with human social-welfare problems (Hall and Reed 1998: 1).

The ability of nonprofit organizations to replace the state as a comprehensive provider of public services is severely constrained by the problem, in other words, of “voluntary sector failure” (Salamon 1995: 44-48).

### ***Neo-liberalism and the Stresses on the Contemporary Third Sector***

Around the mid-1970s the public philosophy of the Canadian state began to change from a Keynesian public policy orientation towards the adoption of neo-liberal policy prescriptions. Neo-liberalism represents an assault upon the Keynesian welfare state. Moreover, the neo-liberal demand that government be *re-invented* has drawn attention to the role and place of nonprofit organizations in society. This has occurred because of the moves by neo-liberal governments to downloading former public responsibilities onto the market, nonprofit organizations and individuals; the neo-liberal desire to forge new ‘partnership’ relationships with non-state actors

like voluntary bodies in order to develop alternative service delivery options; and the neo-liberal *false* assertion that intrusive government has worked to undermine voluntary citizen participation, charitable giving, and self-help. There is little empirical evidence that neo-liberal policies have resulted in greater civic activism in voluntary organizations. The neo-liberal impulse, and rhetoric, around a revival of voluntarism and a more ‘participatory’ civic culture, is in fact about the process of transferring many social support functions to the non-government voluntaristic sector. This speaks to the neo-liberal desire to *disinvest* responsibilities for various citizenship rights in the social and economic spheres, and in the process, transform the state’s caring role in society. Moreover, in the government’s shift to develop a more contractually-based relationship with nonprofit organizations (to set the government-nonprofit relationship on a more commercial footing), the nonprofit sector is being significantly, and negatively altered (Shields and Evans 1998: Chpt. 5). In short, neo-liberalism is about downsizing the state, slashing state support for programs (including those to nonprofit organizations) and placing most other human activities on to a more market-based footing.

There are differing perspectives on neo-liberal restructuring. Pal (1997), for example, while emphasizing the profound changes underway within civil society brought on by welfare state downsizing, perceives these shifts in less threatening terms. He casts the change as one of re-alignment rather than a fundamental dismantling of a previous marriage between the state and the third sector. Others such as Peter Drucker (1994) are the least critical of nonprofit sector restructuring. They see a positively rosy future for nonprofit organizations; in Drucker’s view the future belongs to the third sector.

Harsher critics, however, stress that neo-liberal<sup>3</sup> restructuring is changing the character and ethos of many nonprofit organizations thus threatening the roles which they have performed within society. The significant cutbacks in government financial support to nonprofit bodies has thrown the third sector into fiscal stress. Downloading of responsibility by government for many welfare state services to the third sector has taxed the capacity of the sector to the breaking point (Hall and Reed 1998). The drive by policy-makers to ‘facilitate’ the creation of new partnership relationships between nonprofit organizations, the state and for-profit organizations are pushing nonprofits to act in a more entrepreneurial fashion, to rely more heavily on fees for service, and to redefine their missions in accordance to this ‘new reality’. Critics contend that nonprofit organizations are threatened with being transformed in the process — that they will be pushed away from their original philanthropic purposes to becoming mere “merchants of care” (Social Planning Council 1997).

Neo-liberals have an interest in casting the “nonprofit sector” as an independent third force, and obscuring the role that many nonprofit organizations have historically played in close cooperation with government in creating and sustaining the welfare state. Neo-liberals entertain the view that civil society (of which nonprofit organizations are substantive part) is entirely self-sustaining. In fact neo-liberals go further by suggesting that when government is too involved in the social, cultural and economic regulation of society that it acts as a barrier to the effective operation of nonprofit organizations. This, needless to say, is a highly contentious proposition.

The ability of the third sector to simply replace the social welfare functions of the state is highly questionable. As Hall and Reed observe:

As our governments attempt to unite and re-weave the  
social safety net, it is an easy temptation to presume that there is a

second safety net underneath — the non-profit sector — with the capacity to hold a good part of what the first one cannot. Looked at carefully, that second safety net is simply too small and too vulnerable to be counted on to hold an additional load of helping, caring and supporting services (1998: 18).

The appeal to community and charity by neo-liberals as the new basis for public welfare has become one of the routes to dismantle the state and disempower citizens. The resort to charity has also increasingly become a “moral safety valve”. In the context of neo-liberal restructuring the promotion of charity makes “it easier for government to shed its responsibility for the poor, reassuring policy-makers and voters alike that no one will starve. ... It is not an accident that poverty grows deeper as our charitable response to it multiply” (Pappendiek 1998: 5-6). In the neo-liberal, unlike the Keynesian, era there is a tendency to use the third sector rather than support it (Hudson 1999: 221).

Attempts by neo-liberals to move third sector organizations toward a market (to function more like businesses) rather than a community-based model of operation represents a profound transformation.

Communities are the place for public moral activity, while markets are the place for private economic activity. Communities, at their best, foster recognition, care and co-operation. Markets foster anonymity, independence and competition. Communities are considered the place for openness, security and trust. Markets are the place for secrecy, insecurity and distrust ... Communities look for dignity and equality. Markets look for fitness and success. ... The problem is that our society is awash with markets but in need of substantive community with public values (Ware 1999: 307).

### ***Restructuring Boundaries: The Third Sector, Market Society and the Shadow State***

The core values and practices associated with the Keynesian Welfare state flowed from concepts of ‘state’ and ‘citizen’. These are in the process of being displaced by a different set of priorities more aligned to the new paradigm of the post-welfare state (Shields and Evans 1998: 101-103). ‘Market’, ‘individual’, ‘consumers’, ‘clients’, these are the new hallmarks, the conceptual furniture, of the neo-liberal project. The Keynesian era, with its balance of public and private sectors, was characterized as a ‘mixed economy’. The political orientation valued and operationalized social consensus. The neo-liberal project, in contrast, is building something structurally and culturally different, the market society. In practice, this translates into a policy framework and political culture based on the notion of self-reliance and competition. It is more than interesting word-play to note that ‘mixed’ defines ‘economy’ in one era and ‘market’ defines society in the contemporary context; one acknowledges economic and social pluralism while the other is a monolithic conception of society dominated by market relationships.

The neo-liberal project employs the state in constructing a market society where risk is externalized to the individual. As the state removes itself from providing a social safety net,

others are called upon to assist with legitimating this process of disengagement and to provide residual services. To this end the third sector occupies a strategically central place in the reshaping of state-market relations — of contributing to the legitimation of the market society. In essence, the successful transformation to a market society requires that human needs, typically addressed through social policy and programs, become de-politicized facilitating the offloading of such programs to the third sector.

The process of social policy de-politicization is predicated upon disentangling policy development; that is, the strategic consideration of who will get what and how, from the delivery of such public goods and services. It is at the point of delivery, where a citizen exercises a right to a benefit entitlement, that 'politics' in the abstract becomes tangible, where the limitations of public policy are made concrete and meaningful in the most mundane way. The street battles waged by seasonal and unemployed workers in New Brunswick several years ago over changes to (un)employment insurance provides an example of how policy decisions made in rather distant — both socially and economically as well as geographically — Ottawa had a very real meaning for those at the output end of the policy pipeline.

If policy-makers are to carry out the reinvention of state-market relations, it will be necessary to marginalize 'politics'. However, policy is by definition a form of high-level politics and politics is to a large degree about resource allocation, and especially so in the case of social policy. Therefore it is of strategic importance that those who set the policy framework are distanced from those who will consume their 'product'. The separation of policy from delivery is then not a simple technocratic issue. Nor is it entirely about ending state monopoly in the delivery of human services and establishing a regime of competitive welfare pluralism, though from a neo-liberal perspective this is a desired outcome as well. It is fundamentally about de-politicizing relationship that has existed between mass citizen, the allocators (policy-makers) and producers (those who supply the service). This, in turn, has profound implications for the representation of interests to the state.

As social policy is de-politicized by the state's shifting of the delivery of public goods and services to the third sector, nonprofit organizations come to be ever more controlled by the state's extensive use of service contracts. Community groups come to be "treated merely as convenient conduits for public services — 'little fingers of the state' or ... a 'shadow state apparatus' "(Nowland-Foreman 1996: 2).

### ***The Shifting Boundaries of Politics and Economics: The Third Sector As Buffer Zone for the State***

The advent of, and deepening, of representative institutions through the 17th, 18th and 19th centuries and the consequent incremental expansion of political rights served to broaden and deepen civil society as a sphere open to citizen engagement. Liberal democracy thus created the political space wherein individuals, as equal citizens, could give voice to their concerns with the hope that their political representatives would seek to redress their grievances. More importantly, the advent of specifically 'political' institutions such as representative parliaments, contributed to a growing structural and ideological differentiation between the 'political' sphere and the 'economic' sphere. Liberal democracy and the structural and ideological division between political and economic spheres it posed was assisted in this project by eighteenth

century 'classical economics' and the concept of laissez faire wherein the economy was viewed as "... a mechanism with its own internal laws of development with which the state should not interfere" (McNally 1988: 19). This was in contrast to the earlier mercantilist orthodoxy which made no distinction between state and economy. This abstract conceptualization of the economy opened the door to the de-politicization of economic questions by "emptying capitalism of its social and political content" (Wood 1995: 19). Early liberal democracy was therefore highly limited and concerned with representing the interests of an extreme minority.

As political rights expanded beyond property-owners and provided a basis for, albeit a regulated one, working class organizations such as trade unions and their independent political parties, the very nature and composition of representative institutions and the issues dealt with was transformed. Questions of resource allocation were placed on the table, both in parliaments and in the streets. Liberal democracy and its institutions had become a site for class struggle and a new contestable terrain opened up as the political/economic dichotomy of classical economics and formal liberal democracy gave way to social democracy and the construction of the welfare state. Mass mobilization, even within the limited scope provided by liberal democracy, served to politicize the economic sphere by expanding the scope of debate and struggle to issues of production and distribution. The state, as the organizer of hegemony (Mahon 1977:166-167) and of an 'unstable equilibrium of compromises' between dominant and subordinate classes (Olsen 1977: 216) necessarily became increasingly politicized and a site of struggle. In the post-war period in particular, the state was not simply a instrument employed by capital but rather "... the modern state is itself the matrix for economic and non-economic forms of power" (Resnick 1990: 122).

The emergence of the third sector standing conceptually somewhere between state and economy poses interesting questions with respect to the neo-liberal project to shrink the state and silence the cacophony of voices and 'demand overload' characterizing the welfare state. The problem of the welfare state, charge its neo-liberal critics, is that it was overly responsive to the demands of 'special interests' (Richards 1997:169-184); it was in essence too sensitive to political demands which in turn served the empire building aspirations of the bureaucrats who inhabited the machinery of the state. The post-war expansion of public goods and services was evidence of this government failure to manage the political environment. Restoration of economic and political health, from a neo-liberal perspective, requires progress toward three strategic objectives: the recommodification of labour through such measures as labour market deregulation and social welfare retrenchment; privatization of state resources; and deregulation of the private sector (Jessop 1991: 95).

It is with respect to these objectives that neo-liberal attempts to 'privilege' the role of the third sector in the delivery of social policy deserves focussed attention. The essential point to be argued here is that an expanded role for the third sector in the production and delivery of a host of public goods and services, especially human services, ultimately contributes to the de-politicization of social policy. Central to this hypothesis is the reconstruction of the relationship between the third sector and the state. A new architecture of governance is being erected which establishes a fundamentally different relationship between those who produce public goods, those who are to consume them, and the state. The third sector is being positioned to contribute to the silencing of voices by serving as the mediating agent of conflict and producer of social goods. In essence, it becomes a buffer sector for the state.

## ***The Architecture of Power: The Third Sector, Partnerships and Governance in the Neo-Liberal Era***

The central challenge in restructuring relations between the state and other sectors is to construct a new governance framework. The term 'governance' has been defined as "... the manner of conducting the affairs of state. It includes a consideration of the effectiveness of the policy-making machinery, the provision of information, the relations between levels of government, and the consequent implications for the interaction between the government and the rest of the community" (Ford 1998: 1). In other words, governance is concerned with much more than 'government'. At its highest levels, governance is concerned with building centralized capacity within the state which facilitates the horizontal management of public policy; that is, it enables senior policy bureaucrats and Cabinet Ministers to cut through and reorganize the vertical silos of policy and program delivery which have characterized state architecture in the post-war era.

This vertical structure, it is contended, has contributed to ineffectiveness and inefficiency in policy and delivery. Governance is most fundamentally about the overarching co-ordination of public policy. Government, in contrast, is concerned with the institutional/administrative apparatus of a given state. Governance "... is a function that can be performed by a wide variety of public and private, state and non-state, national and international institutions and practices" (Hirst and Thompson 1996: 184).

The apparatus of government in the Keynesian era, as noted, was concerned with accommodating societal interests through political brokerage resulting in an 'unequal balance of compromises'. It attempted to incorporate the interests of subordinate social classes and other actors into the prevailing social contract. Of course, this varied substantially from state to state. The current project of reshaping governance is more concerned with achieving "... a balance between governing actors" (Kickert 1993: 195). The object is the restructuring of sectoral and institutional arrangements, not the balancing of social interests concerned with the redistribution of resources. This re-balancing includes "alternative arrangements in which public authorities play an ever-diminishing role, and the citizen an ever-increasing role ..." (Paquet 1999: 77). The state recedes from view leaving behind a new and different apparatus which may be characterized as a shadow state which functions as a political buffer zone. The citizen is redefined as a purchaser of services available from a universe of competing providers. The state's role becomes that of service manager and policy director.

The drive toward co-production of public goods and services, more generally termed Alternative Service Delivery (ASD) arrangements, increasingly calls upon third sector actors to enter into partnerships with the state. These arrangements are overwhelmingly focussed upon production. Other important roles served by the third sector, such as research and advocacy, are marginalized. Research and advocacy functions play an obviously important role in the larger issue of policy development. This is of particular importance when Canadian governments at the federal and provincial levels are seeking to build their respective policy capacities through network and policy community building. Ironically, with respect to the third sector, the role being established for it as producers governed by contractual arrangements with the state curtails their autonomous capacity to offer alternative perspectives. Increasingly co-production through partnership arrangements between branches of the state and third sector organizations, typically those associated with social services, is coming to replace exclusive production by the state.

Osborne and Gaebler characterized the separation of policy from delivery as a basic re-orientation of the state from 'rowing' (delivery) to 'steering' (governance and specifically policy setting) (Osborne and Gaebler 1992).

The emergence of partnerships with nongovernmental organizations has been a key innovation in the movement to relocate production activities outside of the state (Kaul 1996:53). In essence, the concept and practice of partnership entails an agreement between a state organization and a private for-profit or non-profit organization to jointly engage in the delivery of a public good or service. Partnerships have thus been promoted as a form of alternative service delivery offering "empowerment, flexibility, collaboration, consultation, proactivity, efficiency and a service orientation" (Wright and Rodal 1997: 266). On the surface, such characteristics readily differentiate partnership arrangements from the rigidity, secrecy and controlling practices attributed to the traditional bureaucratic state. Moreover, partnerships, by definition, imply a sharing of power and decision-making responsibility such that in operational terms: "[I]t requires an ongoing commitment, acceptance of shared contributions and recognition of mutual needs and benefits. A decentralization of power, responsibility and accountability from government to the partnership is supposed to occur" (Phillips 1991: 206).

Of the four types of partnership identified by Ken Kernaghan, only one — collaborative partnerships — entailing joint decision-making in addition to the sharing of human, financial and informational resources, constitutes a genuine form of partnership. Kernaghan has observed that such collaborative partnerships are indeed rare as state officials are reluctant to surrender control to an external organization (1992: 3). In most cases of partnership between the state and non-governmental organizations power-sharing is "supposed" to occur (Phillips 1991: 206), indeed it is critical to the emergence of true partnerships. What actually transpires is something rather different where "policy-making powers must always remain with the minister; officials must control program design; and only operational authority can be devolved to new mechanisms" (Langford 1997: 61). Most of these arrangements are operational partnerships which are characterized by "a sharing of work rather than decision-making power" (Kernaghan, 1993: 57-76 as cited in Seidle 1995: 141). Given that social policy expenditures (health, education and social services) in Canada account for approximately two-thirds of total public expenditures, it is not surprising that the search for 'innovative' means to deliver programs would be most keenly observed in this sector. In effect, nonprofit organizations are increasingly looked upon as "executing agencies for government programs" (Ford and Zussman 1997: 7) which is, of course, "not partnership, it is control" by state authorities (Ford 1998: 37).

The fear of control is further fuelled by the need for strengthening accountability mechanisms when the relationship is an arms length one linked by a contract. It is in this sense that state contracting/outsourcing may be interpreted as transforming the third sector into a 'shadow state'. New Zealand, for example, has gone the furthest toward a contract state model and it is here where the transformation of third sector voluntary organizations into agents of the state is no longer simply a theoretical issue. The New Zealand Department of Social Welfare has:

... reduced its direct role in service delivery, increased its use of voluntary agencies, and altered its existing relationship with the voluntary sector by abandoning a grant model of funding and adopting a contract model. This has led to a more accountable

system and more delivery at the community level, but it has been criticized for the burdensome nature of the accountability regime and the failure to adequately protect and nurture the unique qualities of voluntary agencies (Canada West Foundation 1998: 47).

The New Public Management movement is largely responsible for placing questions of governance at the forefront of the public sector restructuring process. The New Public Management's agenda of state structural reform involves "not merely changes to administrative processes and practices ... also changes to governance itself." (Aucoin 1995: 3).

The New Public Management advocates that the policy function can be isolated from other structures and processes including by those agencies mandated to produce and deliver a good or service. This perspective ignores the organic and iterative nature of the policy implementation process which:

... is a complex social system with three components: structure, technology and theory. The *structure* consists of the set of roles of, and relations among, members of the organization. The *technology* refers to the tools used by members of the organization. The *theory* is the view held by members about the process, its purpose, environment and future. These dimensions hang together and any change in one affects the others (Paquet 1997: 37).

The emerging governance framework, or structure, is one where policy decisions are made at the centre and apex of the administrative state. Implementation of those decisions, including production and delivery of services, is left to agents external to the state who are held accountable by means of a contract with the state. The contract rather than the state becomes the governing regulatory mechanism for ensuring the delivery of goods and services through a constellation of potential competitive delivery agents in the non-profit and for-profit sectors. Indeed, the United Kingdom, United States, New Zealand and Australia have moved their respective public sectors a substantial way down the path of post-Fordist restructuring. They have done this by getting out of the business of human services delivery where "local social services departments were supposed to reduce their role as providers, becoming instead primarily purchasing or enabling authorities, buying community care services from independent provider units" (LeGrand and Bartlett 1993: 5). The theory, structure and technology are so radically altered that it "must be seen not merely as restructuring the policy delivery system but also as often transforming the policies themselves" (Ham and Hill 1993: 107).

For third sector organizations the new managerialism in response to these issues "provides a label under which private sector disciplines can be introduced to the public services, political control can be strengthened, budgets trimmed, professional autonomy reduced, public service unions weakened and a quasi-competitive framework erected to flush out the natural inefficiencies of the bureaucracy" (Pollitt 1990: 49). The movement toward welfare pluralism, that is a system characterized by a multiple number of service providers increasingly located in the third sector, wrapped in the cloak of individual choice and efficiency, is a policy direction with significant implications for the third sector.

[I]n the neo-liberal scheme of things, the relationship between the state and these new service providers is to be governed by a logic of sub-contracting within the framework of commercial markets or 'quasi-markets'. While such a regime can benefit non-profit organizations in some ways, it can also compromise their political and financial autonomy, erode their organizational identity and turn them away from their original mission (Browne 1999: 208).

This is particularly true if the partnership is anything other than a genuine power-sharing arrangement (Seidle 1997: 96).

The reality for the third sector is that despite the real potential for a framework of collaborative partnerships to deepen democracy and citizen representation to the state, Canadian governments "have been unwilling to share power with the partners, preferring instead to maintain a traditional top-down approach. Many of the so-called partnerships are, in fact, merely contracts in which the state, as the contracting party, sets all the rules" (Jenson and Phillips 1996:127). Seen in this context existing partnership arrangements based on contractualism can hardly be said to represent a radical departure from the Weberian command and control model characterized by essentially hierarchical and rule-driven structures where "policy-making powers must always remain with the minister; officials must control program design; and only operational authority can be devolved to new mechanisms" (Langford 1997: 60-61). Perhaps still more to the point, the principle of separating policy from delivery ironically strengthens the Taylorist production paradigm in the public sector by imposing a sharp differentiation between planning and production, thinking from doing. Such a relationship facilitates the de-politicization of retrenchment, achieving welfare without politics by displacing the state as agent and introducing contractual mechanisms. The state is no longer readily, or easily, identified as the source of the problem. In this sense the third sector truly serves as a buffer zone for the state as it becomes the point at which issues respecting quality of service and due process arise. It is the contract that governs, not Minister, Deputy Minister or some other accountable public official.

A public policy analogy can be found by looking at the labour relations regime of the post-war period. Here, trade unions became legally empowered to engage in collective bargaining and represent the interests of their members. In return they 'policed' the terms and conditions of any agreement arrived at with the employer by ensuring there would be no industrial action during the life of the contract. In the neo-liberal era, and with respect to social policy, third sector organizations are being positioned to police their contracts with the state. Like unions, they are to serve as a mediating agent between citizens and the state and ensure that the terms of the contract are fulfilled. Unlike unions, third sector organizations involved in service delivery, where they may depend on the service contract with the state to fund themselves and meet the needs of their client base, are not as autonomous as trade unions to negotiate and provide representation on behalf of their constituency to the state. Of course, should reform of the labour relations policy regime lead to right-to-work legislation where the integrity of union organization would be under daily threat, the analogy would be much more approximate.

A distributed governance framework further requires the third sector to invest resources, both time and financial, in building its own coordinative capacities if it is to have any impact

upon policy development. The fragmented nature of social service delivery demonstrates the 'coordinative hazard' off-loading represents when one considers that in Ontario alone more than 3,200 organizations employing anywhere from less than a half dozen to several hundreds of persons are involved in the production of social services. The linkages to one another and back to the state are weak and for the most part underdeveloped even at the best of times. So, for third sector organizations, the emerging new relationship with the state is not only setting up a new hierarchy of relatively more or less privileged actors located outside of the state but is shrinking the space for civic engagement precisely "because of the difficulty in advocating for policy changes within a partnership arrangement, especially if the state holds the power cords. From the outside, it is more difficult to lobby multiple partnerships than a single government body" (Jenson and Phillips 1996: 128).

Much recent writing on the subject of renewing governance situates the problem of the unravelling of the post-war social contract within the context of a paradigm shift from Fordism to an information and communications technology paradigm. The emerging knowledge based economy requires that organizations become learning organizations if they are to survive to the changing economic, social and cultural landscape. To facilitate organizational and social learning a more 'distributed system of governance' is called for which "moves away from vertical bureaucratic structures and towards more horizontal network-style structures" (Rosell 1999: 156). This governance framework is characterized by wide distribution of decision-making authority, organizational flexibility capable of rapidly adapting to a changing environment, more equitable distribution of resources, and a broadly shared sense of goals and values (Rosell 1999: 156). This framework corresponds rather well to the concept of collaborative partnership discussed above. Collaborative partnerships, marked by power-sharing, establishes a forum in which policy can be developed, shaped and influenced through a process of multi-actor input and social learning. Thus a representation role is perhaps not only preserved but possibly even expanded. Critical to this process is harnessing the knowledge of front-line service delivery workers to modify policy. As opposed to the policy/delivery implementation perspective, this view understands the necessity for a linkage between those with first-hand experience in making the policy 'live' and those who engage in the policy formulation. Obviously the off-loading of the delivery function resulting in a new and sharper division of labour within the state apparatus has profound implications for the capacity of the state to learn from and engage the citizens it governs.

## ***Conclusion***

In the era of the shrinking state it is important to learn a lesson from Plato's cave shadows and not take appearances for reality. As the state recedes it does not wither away but rather a shadow state emerges to fill the void. The third sector is strategically situated, located between state and market, to facilitate a long-term strategy of marketization of public goods and services. Advancing the marketization of the public sector is an essential step on the road to the market society. The new distributed governance arrangement where third sector organizations are performing an increasing role in the production and delivery of public goods is the key instrument of a neo-liberal structural adjustment strategy. The new role of the third sector as producer and supplier has profound implications for the sector itself in terms of lost autonomy

vis a vis the state and risks being transferred to the third sector agents of the state. Moreover, the capacity of this sector to take on the role as supplier of social provision is highly problematic. This in turn has implications for the development of social capital, enhancement of social cohesion, and the health of civil society in general.

The array of public goods and services which came to define the post-war social contract, most importantly the state provision of social programs as a citizenship entitlement, served to broaden and deepen the meaning of citizenship well beyond the narrow definition of civil and political rights to encompass social and economic needs. In this sense the Keynesian Welfare State was a developmental state where the expansion of social provision contributed to social cohesion. The cohesive society was built within the context of a growth paradigm predicated upon political commitments to full, or at least high levels of, employment and macro-economic management. The state architecture was designed to reflect social and economic sectoral interests. This structure, particularly in the absence, at least in Canada, of corporatist institutions and sophisticated peak organizations to 'represent' sectional interests to the state, facilitated and imparted to the state the role of compromise broker. But this organic post-war order that contributed to social cohesion is giving way to a new world order of competition and risk where:

... responsibility for fostering solidarity and guaranteeing the collective access of the disadvantaged has been amputated from the citizenship regime. Individuals are charged with representing themselves, through referenda and petitions and during public consultation, in addition to elections. Any expression of collective interests must be the product of a hardy competitive capacity to organize and generate resources in the marketplace of ideas (Jenson and Phillips 1996: 129).

The welfare state, as the most progressive form of liberal democracy, reintegrated political and economic interests through the expansion of the concept and practice of citizenship. The disease of classical liberalism — atomized individuals and polarized societies — was reconstructed as communities which acknowledged the principle of mutual reliance. Substantive social cohesion of this sort translated into a 'thick' civil society. Public goods and services contributed to the development of social capital that in turn contributed to a growing 'middle class'. As poverty levels declined population health increased. All of these achievements correspond to the removal of such goods as education and health care from the private market. The neo-liberal project of restructuring state-market relationships necessarily requires the re-commodification of public goods and services. The marketization of social programs is clearly problematic on political grounds therefore such reform requires a strategy of stealth. The neo-liberal ideal of the 'lean state' (Sears 1999) inhabited by the 'lean citizen' (Mooers 1999), defined by minimal social entitlements, is difficult to achieve by means of a direct assault. Consequently the need to redraw the governance framework. Concepts of subsidiarity and distributed governance inform contemporary efforts to redraw the boundaries between state, market and society. The re-drawing of these boundaries has fundamental implications for what we mean by 'citizenship' and the representation of interests to the state. Within this re-mapping the third sector is being positioned as a transitional sector standing between a social-provision welfare state past and a marketized minimalist state future.

The consequences of neo-liberal restructuring are hence significant. For the third sector neo-liberal restructuring is resulting in the commercialization of nonprofit activities and the loss of autonomy for the sector as nonprofit organizations become ever more tied to government controlled service contracts. In the process the services offered by third sector organizations are being transformed. Increasingly fees for services are being introduced, as is 'rationalization' and 'professionalization' of services which is moving the quality of nonprofit services away from its community and personal touch — community involvement in the running of nonprofit service provision is being replaced by professional management with accountability to the state. Moreover, the drive to download responsibilities for social welfare by government to the third sector has strained the capacity of the sector to handle new demands to its outer limits. As for the state, neo-liberal restructuring is not only shrinking its formal size but altering its structure as the emergence of the shadow state illustrates. Restructuring is contributing to the deterioration of social cohesion and is hampering the development of social capital. In terms of civil society, notions of community, solidarity and collective responsibility are being displaced by an atomized 'society' where the ethic of "possessive individualism" (Macpherson 1962) prevails. Social citizenship is under challenge and the narrower idea of the citizen as consumer and client is coming to predominate. The diminishing of the advocacy role of the third sector is deterring access to the policy-making process, especially for the most marginal and under-represented in society. In this sense the idea of the third sector as a voice for society is under threat. Paul Leduc Browne summarizes the contemporary dilemma facing the third sector:

Contractual relations and partnerships between governments and no-profit organizations can involve some benefits for both parties. However, while the emerging contract regime is useful to governments for political, ideological, economic and bureaucratic reasons, it is likely to prove most detrimental to voluntary organizations. Their autonomy and identity will be eclipsed as they are forced into the straightjacket of commercialized public sector's managerial norms and procedures (1996: 69).

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## Notes

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1. This phrase is borrowed from the title of a national task force Panel on Accountability and Governance in the Voluntary Sector, *Helping Canadians Help Canadians: Improving Governance and Accountability in the Voluntary Sector*, (1998) established by the Voluntary Sector Roundtable to study issues of accountability and governance in the "voluntary sector". The Voluntary Sector Roundtable is an organization of national nonprofit bodies that formed in 1995 to offer a voice to Canadian charities.

2. It is worthy of note the lack of a strong tradition of corporate philanthropy in Canada. For example, less than 5% of businesses report making contributions to Revenue Canada, and among largest Canadian corporation with assets of more than \$25 million over half do not give anything to charity (Picard 1996: 8).

Interestingly in the period between 1991 and 1995 when Canadian governments were actively cutting their support to the nonprofit sector corporations also slashed their rates of giving from about 1.4% of profits to 0.8% (Picard 1996: 8).

3. Neo-liberalism is a political ideology which is very critical of Post-WWII welfare state developments. It asserts that modern government, guided by an interventionist and highly active public policy agenda, has become too large within Canadian economy and society. Contemporary problems, such as the substantial public debt and the difficulties faced by national economies in successfully adjusting to the new global order, are laid on the shoulders of so-called *government failure* by neo-liberals. Their solution is to downsize the state and allow the market and individual initiative to be given freer rein. According to neo-liberals, this will mean a significant reshaping of the state's social safety net. Neo-liberals are calling for the creation of a new *lean state* (Shields and Evans 1998).

Neo-liberalism is attempting to guide society towards the creation of a new economic regime. For the public sector this entails privatization, contracting out, liberalization and more generally the application of commercial criterion to the provision of public goods which remain within a diminished public sphere (Jessop 1993: 266-267). Neo-liberalism is about transferring decision-making power away from collective/public hands to the market place. It is concerned with creating a policy environment which is driven by a corporate agenda (McBride and Shields 1997: 14).