The Third Sector: Neo-Liberal Restructuring, Governance, and the Remaking of State-Civil Society Relationships

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Summarized Content:

This paper analyzes the role of non-profit organizations, or NGOs, in the delivery of social services within the framework of a restructured state-societal relationship. It argues that under neo-liberal restructuring the third sector has become an agent of the state in producing and delivering social services.

This contract relationship between the state and NGOs, however, is moving the third sector away from its core mission, commercializing its operations, and compromising its autonomy.

This paper suggests that this new role for NGOs has implications for the development of social capital, the enhancement of social cohesion, and the health of civil society.

For immigrant serving agencies, which are part of the third sector, this restructuring has significant implications for the community development and the successful integration of newcomers into Canadian society.

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sector’s operations, and compromising the 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.

Background
Importance of Third Sector
Non-profits serve a strategic role in “helping Canadians help Canadians.” Non-profit organizations serve either the public or a defined membership such as a professional association (Quarter, 1992: 42). The defining characteristics of the third sector are that they are privately run and constituted bodies, although they often interact closely with the public sector, and work for the public good.

Key concepts that distinguish the third sector from the market and government sectors are philanthropy, altruism, charity, reciprocity, mutuality (Shields & Evans, 1998: 89), and the ethic of caring and giving. Authors

Significantly, while the median level of donations to the non-profit sector is only $150 per capita, the average per capita value of services to Canadians is estimated at $3,000 (Picard, 1996: 1).

Currently, if all non-profit bodies, whether registered as a charity or not, are counted, the total number of organizations would likely exceed 200,000 (Hirshhorn, 1997a: 8). Figures indicate it is the fastest growing sector in the United States (Hall, 1997: 4; Independent Sector, 1998), and this is most likely the case in Canada too.

Canada’s non-profit sector conservatively accounts for 4% of the country’s Gross Domestic Profit (GDP), and at least 10% of the value of services in health, education, and social services (Day & Devlin, 19997: 73, 33). In terms of revenues, the third sector is three and a half times the size of the agricultural sector and eight times larger than the transportation industry (Picard, 1996: 2).

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The sector adds substantively to the economic and social health of the country, but this contribution has not been widely recognized – in the sense it is still an “emerging sector” of society (Hirshhorn, 1997b).

Role of the Third Sector
The sector performs the following key functions within society:

1. Serving the Community – The mandate of today’s non-profits is to “do good works,” to provide service to the community. The third sector delivers services that are tangible (clothing, shelter, food, training, health) and more intangible (counseling, support, collective worship). Much of the service is provided by community-based groups, which are close to the communities they serve.

2. Advocating – This includes public education about a social issue as well as direct advocacy or lobbying to improve the conditions of a particular group or target policies or laws that are “unjust”.

The publicly supported advocacy role of non-profit organizations helped to facilitate social inclusion for groups such as women, Natives, the disabled, visible minorities, and the poor.

3. Mediating – Through its mediation role within society, non-
profit organizations can bring people together to work out issues and help develop a common understanding or compromise (Scott, 1997: 46-47). This is part of building “social capital” and social cohesion in society.

Social capital refers to the features of social organization such as networks, norms, and social trust that facilitate coordination and cooperation for mutual benefit (Putnam, 2001: 41-42). Connected to this is social cohesion, which is the capacity to reconcile differences and discern common interests (Maxwell quoted in Public Policy Forum, 1998: 31).

The advocacy role of third sector organizations has been a critical one for broadening the democratic experience in the post-war period. Community groups facilitate involvement and voice within the political process. Authors

For many Canadians, government has lost much of its legitimacy but non-profit organizations still enjoy considerable trust/legitimacy. Thus, third sector groups are playing an important role as bridge organizations – bridging between individuals and government. They act as political stabilizers fulfilling specific needs not covered by government programs (Maxwell, 1997: A25).

4. Building Citizenship – In helping to build citizenship, non-profit organizations assist in developing a more meaningful dimension to citizenship and civil society. Modern notions of citizenship includes entitlement to social and economic rights associated with the welfare state as well as civil and political rights (O’Connor, 1998- 184-185). Citizenship encompasses an active facet involving commitment to deep participation within the community/society.

The third sector is a central part of a dynamic civil society. However, to date the third sector’s contribution to citizenship and civil society has been little acknowledged.

Development of Third Sector
The state has grown in both size and importance over the years, but so have other institutions including non-profit organizations. In terms of funding, about 60% of non-profit funds come from government grants. About 10% comes from individuals, 1% from for-profit corporations, and about 29% from sources such as fees, product sales, investment income, and other fundraising activities (Panel on Accountability and Governance in the Voluntary Sector, 1998: 4).

Given the relationship between governments and non-profits for social welfare provision, there exists a mixed social economy rather than a state monopoly on welfare provision. In a mixed social economy, social services are delivered through a mix of state and privately run and administered initiatives. Services offered are combined with public-sector support in conjunction with the participation of non-profits or NGOs.

In this relationship, the state has offered uniform services on an equitable basis for all. In contrast, non-profit organizations tend to provide individualized services (shaped to individual needs) in a holistic way (crossing boundaries) from a particular value bases.

However, off-loading welfare state functions is problematic because of the limitations of non-profit organizations. These problems include (Hall & Reed, 1998: 1):
- An inability to generate sufficient resources consistently;
- A focus on specific groups leading to gaps in or duplication of services;
- The vesting of influence in those who have the greatest resources; and
- An often non-professional/amateur approach to handling human social welfare/service problems.

Analysis
Neo-Liberalism and the Third Sector
Neo-liberalism represents an assault on the Keynesian welfare state. It is about downsizing the state, slashing state support for programs (including those to non-profit organizations), and placing most human activities on a market-based footing.
The creation of new partnership relations among non-profits, the state, and for-profit organizations is pushing non-profits to become more entrepreneurial, to rely on fees for service, and to redefine their missions in terms of this new reality. Critics argue that non-profit organizations will be pushed away from their philanthropic goals to become mere “merchants of care” (Social Planning Council, 1997).

Neo-liberals cast the non-profit sector as an independent third force closely cooperating with government to sustain the welfare state. Neo-liberals contend that civil society is self-sustaining and even suggest that too much government involvement is a barrier to the effective operation of society, including non-profit organizations. But the ability of the third sector to replace the state’s social welfare functions is highly questionable.

The neo-liberal appeal to community and charity as the new basis for public welfare has become a route to dismantle the state and disempower citizens. In the context of neo-liberal restructuring the promotion of charity makes “it easier for government to shed its responsibility for the poor. … It is not an accident that poverty grows deeper as our charitable responses to it multiply” (Poppendieck, 1998: 5-6).

In the neo-liberal era, there is a tendency to use the use the third sector rather than support it (Hudson, 1999: 22). The neo-liberal attempts to move third-sector organizations to function more like businesses and away from their community-based models of operation represents a profound transformation.

**Restructuring Boundaries: The Shadow State**

The move away from the Keynesian era, with a balance of public and private sectors or a mixed economy, to the neo-liberal project, has witnessed the building of something structurally and culturally different – a market society with a policy framework and political culture based on the ideas of self-reliance and competition.

As the state removes itself from providing a social safety net, others assist in legitimizing this process and providing residual services. The third sector occupies a strategic place in reshaping the state-market relations by contributing to the legitimation of the market society. In essence the transformation to a market society requires that human needs become depoliticized, thereby facilitating the off-loading of social programs to the third sector.

Social policy depoliticization is based on separating policy development from the delivery of public goods and services. It is at the point of delivery, where a citizen claims a right to a benefit that politics in the abstract becomes tangible and the limitations of public policy become concrete.

**Shifting Boundaries: The Buffer Zone**

As social policy is depoliticized by the state’s shifting the delivery of public goods and services to the third sector, non-profit organizations come to be controlled by the state’s use of service contracts. Community groups are treated as convenient conduits for public services – “little fingers of the state” or … a “shadow state apparatus” (Nowland-Foreman, 1996: 2).

Since policy is a form of politics, which is largely about resource allocation, especially in the case of social policy, it is necessary to marginalize politics. Distancing those who set the policy framework from those who consume the “product” is strategically important.
These political demands served the empire-building goals of state bureaucrats. Thus the expansion of public goods and services resulted from the government’s failure to manage the political environment. For neo-liberals restoration of political and economic health requires three objectives (Jessop, 1991: 95):

- The recommodification of labour (labour market deregulation and social welfare cutbacks);
- Privatization of state resources; and
- Deregulation of the private sector.

Power: Partnerships and Governance
In restructuring relations between the state and other sectors, the central challenge is to construct a new governance framework. Governance deals with building centralized capacity within the state, which facilitates the horizontal management of public policy. This enables senior policy bureaucrats and cabinet ministers to cut through and reorganize the vertical silos of policy and program delivery.

Governance is basically about the overarching co-ordination of public policy. The neo-liberal shaping of governance is concerned with achieving a “balance between governing actors” (Kickert, 1993: 195). The goal is the restructuring of sectoral and institutional arrangements, not the balancing of social interests with the redistribution of resources, which was the concern of the Keynesian era.

This restructuring 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, leaving behind a different apparatus – a shadow state that functions as a political buffer zone.

Partnership entails an agreement between the state and third sector agencies to jointly deliver a public good or service. This has been promoted as an ASD offering “empowerment, flexibility, collaboration, consultation, proactivity, efficiency, and a service orientation” (Wright & Rodal, 1997: 266). Moreover, a partnership implies a sharing of power and decision-making responsibility.

What actually happens is that “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). These arrangements are operational partnerships characterized by a “sharing of work rather than decision-making power” (Kernaghan, 1993, as cited in Seidle, 1995: 141).
In effect, non-profit organizations are increasingly looked upon as “executing agencies for government programs” (Ford & Zussman, 1997: 7). This is “not partnership, it is control” by state authorities (Ford, 1998: 37).

Under neo-liberalism, third sector organizations are being positioned to police their contracts with the state. Authors

The fear of control is fuelled by the need to strengthen accountability when the relationship is an arm’s-length one linked by a contract. In this sense, state contracting/outsourcing may be interpreted as transforming the third sector into a “shadow state” (Boase, 2000; Institute for Public Policy Research, 2001: 213-248).

The New Public Management (NPM) movement is mainly responsible for placing governance at the forefront of public-sector restructuring. The NPM advocates that the policy function can be isolated from other structures and processes, including those agencies mandated to produce and deliver a good or service.

In the emerging governance framework, policy decisions are made at the centre of the administrative state. Implementation of decisions is left to agents outside the state who are held accountable by a contract with the state. The contract, not the state, becomes the governing regulatory mechanism for ensuring the delivery of goods and services through potential competitive delivery agents in the non-profit and for-profit sectors.

For third sector organizations the new management style allows for:
- Private sector disciplines to be introduced to the public services;
- Political control to 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).

Under neo-liberalism, third sector organizations are being positioned to police their contracts with the state. They mediate between citizens and the state to ensure the contract terms are fulfilled. However, where they depend on the state for funding of service delivery, they are not autonomous to negotiate on behalf of their client groups.

For third sector organizations, the new relationship with the state sets up a hierarchy of privileged actors outside the state and shrinks the space for civic engagement. “From the outside, it is more difficult to lobby multiple partnerships than a single government body” (Jenson & Phillips, 1996, 128).

The knowledge-based economy requires that organizations become learning organizations. To facilitate organizational and social learning a more “distributed system of governance,” which “moves away form vertical bureaucratic structures and towards more horizontal network-style structures,” is required (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 well to the idea of a collaborative
partnership. This type of partnership, 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.

Harnessing the knowledge of front-line service delivery workers to modify policy is critical to this process. As opposed to the policy delivery/implementation perspective, this view understands the need for a linkage between those with first-hand experience in making the policy “live” and those who engage in the policy formulation.

The off-loading of the delivery function, which results in the new and sharper division of labour within the state, has profound implications for the capacity of the state to learn from and engage the citizens it governs.

**Conclusion**

As the state recedes a shadow state emerges to fill the void. The third sector, located between state and market, is situated to facilitate the long-term strategy of the marketization of public goods and services.

The key instrument of neo-liberal restructuring is the new distributed governance arrangement with the third sector playing an increasing role in the production and delivery of public goods.

This new role for the third sector has profound implications in terms of lost autonomy vis-à-vis the state and the risks being transferred to third sector agents of the state. The capacity of this sector to take on this role has implications for the development of social capital, enhancement of social cohesion, and the health of civil society.

The neo-liberal restructuring of state-market relationships requires the recommodification of public goods and services. Since the marketization of social programs is politically problematic, the governance framework needs to be redrawn.

The shifting of boundaries between state, market, and society has major implications for what we mean by “citizenship” and the representation of interests to the state. Within this remapping, the third sector is repositioned as transitional, standing between a social-provision welfare state past and a marketized minimalist state future.

For the third sector, neo-liberal restructuring is resulting in the commercialization of non-profit activities and the loss of autonomy as non-profits are tied to government-controlled contracts. In this process, the third sector services offered are being transformed.

Increasingly, service fees are being introduced, as are “rationalization” and “professionalization of services.” These changes are affecting the quality of non-profit services and diminishing their community and personal touch. Community involvement in non-profit service provision is being replaced by professional management with accountability to the state.

The downloading of social welfare responsibilities to the third sector has curtailed the ability of the third sector to handle new demands. As for the state, neo-liberal restructuring is shrinking its formal size and altering its structure, as the emergence to the shadow state illustrates.

Restructuring contributes to the deterioration of social cohesion and hampers the development of social capital. For civil society, notions of community, solidarity, and collective responsibility are displaced by an atomized society where the ethic of “possessive individualism” (Macpherson, 1962) prevails.

Social citizenship is under challenge and the narrower idea of citizen as consumer and client is predominating. The diminishing of the advocacy role of the third sector deters access to the policy-making process, especially for the most marginal and under-represented in society.
This role is particularly important for immigrant serving agencies, which represent a pro-equity and anti-racist voice within Canadian society. Since many recent immigrants are visible minorities, the work of these agencies to promote equity and combat racism is at risk. The restructuring of the settlement sector threatens the ability of immigrant serving agencies to advocate on behalf of newcomer communities.

In this sense, the idea of the third sector as a voice for society, which includes newcomers to Canada, is under threat.

Note: An expanded version of this paper may be found in: B.M. Evans and J. Shields. (2002). The third sector: Neo-liberal restructuring, governance, and the remaking of state-civil society relationships. In C. Dunn, (Ed.), The handbook of Canadian Public Administration. Don Mills, ON: Oxford University Press, 139-158.

Sources


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Launched in 1996, the Metropolis Project aims to improve policies for managing migration and diversity by focusing scholarly attention on critical issues. It involves policymakers, researchers, and NGOs in all project initiatives.

Metropolis’ goals are to:

- Enhance academic research capacity;
- Focus academic research on critical policy issues and policy options;
- Develop ways to facilitate the use of research in decision-making.

Structured as a partnership, the project has both Canadian and international components. Metropolis encourages communication between interested stakeholders at the annual national and international conferences and at workshops, seminars, and roundtables organized by project members.

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