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Margaret Gibelman  
*Catholic University of America*

Harold W. Demone Jr.  
*Rutgers University*

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# How Voluntary Agency Networks Fared in the 1980s

MARGARET GIBELMAN

The Catholic University of America  
National Catholic School of Social Service

HAROLD W. DEMONE, JR.

Rutgers University School of Social Work

*Believing that the least government is the best government, the Reagan Administration favored, in both principle and practice, the transfer of functions to and fiscal independence of the private sector. This article provides a comparative analysis of the financial status of three major types of voluntary agency networks before and near the end of the Reagan era. Focusing on national voluntary health, child welfare league, and family service agencies, proportionate and absolute revenues, sources of income, and new income generating strategies are examined within the context of philanthropic trends and the compensatory role of state and local governments.*

*These agency networks fared well during the Reagan era, in large part due to the coping strategies they employed, the popularity of their programs, and effective constituent advocacy. The interests of the less popular groups and causes in this society, however, have been severely challenged.*

Ronald Reagan began his first term as President of the United States in January 1981 promising fundamental changes in government's role. The goal was to transfer as many functions as possible to the private (not-for-profit and for-profit) sector, including both the administration and financing of human services. Federal funds in support of human services, already reduced under previous administrations, were to be substantially curtailed. The philosophical base was clear: the best government was the least government. These principles have been adopted, in whole or part, by the Bush Administration.

Most experienced agency executives had lived through budget cutting before and had developed coping skills. But this was

the first time that cutbacks were symbolic of profound alteration in the ideological foundation of our social welfare system. The debate about who is responsible (and to what extent) for the general health and well-being of citizens and how this responsibility is to be met reverberated through government at all levels and through the private sector. Voluntary agencies were expected to do more with less. It was believed that the competition afforded through the open market would ultimately result in better, cheaper, and more efficient products and services. The limited residual public role was best managed through state and local government.

Although the protracted impact of Reaganomics must, of course, await longitudinal studies, sufficient comparative data are now available to assess the short term impact of this philosophical and operating role shift on voluntary agencies responsible for delivering human services. This article begins with an overview of the financial status of select national voluntary health and human services networks at the beginning and toward the end of the Reagan Administration. The fiscal status of health and social welfare agencies is one index of impact. The implications of these fiscal trends are then analyzed within the broader context of how the voluntary sector has adapted to the challenges of the Reagan era. Given similar environmental forces and ideology, these adaptational strategies will provide important precedents for the voluntary sector in the years to come.

#### Data

Since the voluntary (not-for-profit) sector is composed of many subunits, generalizations are difficult. Discussion herein is limited to some of the voluntary agencies that function nationwide and/or are the central unit of networks with local affiliates. Some have federated structures, others corporate. Comparisons of revenue sources and levels for national voluntaries between the pre and/or early years of the Reagan Administration and the most recent available fiscal year highlight changes in income patterns. Such changes are considered for member agencies of the National Health Council, the Child Welfare League of America, and Family Service America. Comparative data from

the American Association of Fund Raising Council are also included.

### *National Voluntary Health Agencies*

Comparative financial reports were available for 16 member national voluntary health agencies (NVHAs) of the National Health Council (National Health Council [NHC], 1982; NHC, 1989). (In 1981, there were 19 NVHA members; in 1987, 34 agencies. Some 1981 member agencies discontinued their NHC affiliation by FY1987, others joined.) The National Health Council functions as spokesperson and information clearinghouse for the NVHAs (NHC, 1988).

In 1981, total income for the 16 agencies was \$683,314,000. By 1987, their collective income had reached \$1,101,025,000. This total revenue growth of \$417,711,000 represented a 61% increase over the 1981 level (Gibelman, 1990). Among the dramatic revenue increases experienced were those of the American Diabetes Association (136%); the Epilepsy Foundation of America (140%); and the National Foundation for Ileitis and Colitis (243%). For eight agencies, total income increased by over 100% between 1981 and 1987. Fourteen of the sixteen agencies surpassed, by significant amounts, the 23.4% of inflation for that period (U.S. Department of Labor, Bureau of Labor Statistics, personal communication, September 12, 1988).

The revenue base of NVHAs, unlike many other types of voluntary agencies, has generally been independent of government funds (NHC, 1986). Instead, the major source of income (in both 1981 and 1987) was from public contributions (corporations, foundations, and individuals). Thus, the potential of a diminished governmental financing role was not a direct concern to these agencies. However, Reaganomics did pose a new challenge of heightened competition for private philanthropic dollars. Those voluntaries that had heretofore depended on government contracts, grants, or fees-for-service were increasingly making competing claim for corporate and foundation dollars. The decrease in federal dollars also posed a potential negative effect for clients of these agencies in relation to access and availability of needed services.

Changes in the sources of NVHA revenue suggest that the potential or realized competition for public contributions did have an impact on revenue sources. In 1981, public contributions constituted 77% (\$539 million) of total income for the 19 NHC members; by 1987, the proportion of public contributions had fallen to 58%. Although public contributions rose absolutely for these agencies between 1981 and 1987, there was a significant decrease in reliance on this revenue source. In 1987, 42% of income (compared to 23% in 1981) came from "other revenues", a category which includes program service fees, publication sales, membership dues, and investments (NHC, 1989).

### *Child Welfare Agencies*

For the over 200 United States voluntary agency members of the Child Welfare League of America (CWLA), the period of comparative revenues and expenditures is 1979 and 1986 (202 agencies in 1979 and 230 in 1986). The seven year growth in revenues was at the extraordinary level of 240%—\$582 million in 1986 compared to \$171 million in 1979 (Malm & Maza, 1988). The CPI inflationary index during this same period was 42.8 (*Information Please Almanac*, 1988).

This dramatic growth in revenues occurred in several categories. In 1960, 28% of income for member agencies was from government (contracts, grants and/or fees-for-service). By 1975, government funds accounted for 57% of revenues. In 1979, there was a slight decline to 55% for the 202 child welfare and child and family members (62% if only the 121 child welfare members are included) (Malm & Maza, 1988).

In 1986, total revenues from government for all 238 member agencies, most of whom were now exclusively child welfare agencies, was 59%. Thus, depending on the 1979 base of comparison (child welfare agencies only or child and family agencies and child welfare agencies combined), there was a slight increase in government funding (55 to 59%) between 1979 and 1986 or a slight decline (62 to 59%). On a percentage basis from 1975 to 1986, some stabilization of governmental support had occurred (Malm & Maza, 1988).

In absolute dollars, the increase in government funding was substantial. For example, median revenues from government by

agency was \$453,000 in 1989 and \$1,032,000 in 1986, an increase of 128%. About two-thirds of income from payments for service on a case-by-case basis (Malm & Maza, 1988).

The United Way is the second largest source of income for CWLA member agencies. In 1960, it contributed 23.6% of total income; in 1975, 11.8%; in 1979, 9.0% to all 202 members and 16% to the child welfare agency subcategory. In 1986, total United Way contributions to CWLA agencies was 10.4%.

These proportions, however, do not present a complete picture. In 1979, United Way support to these voluntaries was \$17 million. In 1986, the figure was \$58 million, representing a seven year 240% growth in support from this source, another extraordinary development. It grew even faster than support from government.

### *Family Service Agencies*

A third set of data reflect the experiences of family service agencies affiliated with Family Service America (FSA). Although not evidencing the exciting growth of the CWLA agencies, the 290 FSA member agencies in the United States and Canada also more than held their own against inflation. For the United States affiliates, the level of growth was 23% between 1982 and 1986, in contrast to a four year inflation rate of 13%. In respect to governmental support, the proportion of total budget in 1979 was 34%, in 1982, 30%, and 1986, 37% (Family Service America, [FSA], 1988). The losses in the early years of Reaganomics were more than offset by 1986.

The cumulative data for three types of national voluntary agencies suggest that their predicted revenue shortfalls were not only avoided, but that they have reached a new level of financial health. The changes in income base are indicative of skillful and resourceful financial management within the changing philanthropic environment. Comparatively, these agencies did very well, indeed. An operating ratio study conducted by the American Society of Association Executives found that, of 708 responding voluntary agencies of all types, average income rose 25% in three years (Association Trends, 1989). An examination of several means chosen to survive in this hostile environment

and their implications for the mission and program of the voluntary sector follows.

### Sources of Support

#### *Corporations*

Given the Reagan emphasis on voluntary giving, corporations would be a logical source of new or expanded financial assistance for nonprofit health and human services agencies. Available data on corporate giving suggest that expectations were overly optimistic and that a "bottoming out" has occurred.

Some voluntaries, particularly those with "well connected" boards of directors, had begun to tap into corporate contributions long before Reaganomics, notably the national voluntary health agencies. Others, which relied heavily on contracts and grants from government and/or the United Way, began to work actively to gain credibility with and access to corporations. For the newcomers, competition was already stiff and many lacked the sophistication and experience to be effective contenders.

According to the Conference Board, a business-research organization that annually reports on charitable giving by companies, the charitable donations budgets of nearly half of the companies that donate ten or more million dollars a year had been cut, in 1986, by amounts ranging from 2 to 78% (Bailey, 1987). One result has been a narrowing of the focus of corporate giving and an increased concern that immediate and measurable benefits in terms of recognized public needs and corporate interests be shown. Nonprofits are increasingly being asked by corporate sponsors to demonstrate how gifts to them will positively impact on the corporate bottom line or be of direct assistance to the company's employees. Much of the burden of proof is placed on the voluntary agencies to show the connection between philanthropic support and corporate benefit.

Indeed, the statistics confirm these negative changes in corporate giving. In both 1986 and 1987, an estimated \$4.5 billion was donated by businesses. After 15 years of increases in corporate giving, 1985 marked a leveling of growth maintained into 1987 (Weber, 1988). In 1988, corporate giving accounted for 4.5% of total philanthropic contributions, down from the previous years as a percent of the total, up slightly in absolute dollars

and held constant when controlled for inflation (Teltsch, 1989). Declines are forecast for ensuing years (Simpson, 1987).

Because corporate giving is tied to the state of the economy, it is not a totally predictable or a stable source of voluntary agency support. Reductions in corporate charitable gifts have been attributed to company mergers, acquisitions, and "restructurings" of U.S. corporations (Behr, 1988). The need of these corporations to cope with their own fiscal problems—an increase in debt level for nonfinancial corporations of 41% between 1981 and 1986; heavy borrowing; cutbacks in budget and staff; concern with maintaining or increasing profits; and growth in corporate size and centralization—is believed responsible for the reduction in charitable giving. Nathan Weber, vice president of the American Association of Fund Raising Counsel, describes it as a "...new lean and mean approach to giving by business executives...a relative loosening of the ethos of corporate social responsibility" (Teltsch, 1989, p. A16).

### *Foundations*

At the same time that corporate giving was expected to rise, it was predicted that average grants from foundations would decline, an outgrowth of heightened applicant competition. The stock market collapse of October 1987 was also expected to take its toll.

In defiance of the forecasts, foundation giving reached a level of \$6.1 billion in 1988, an increase of 4.2% over 1987 and an increase of 131% since 1980. For 1988, foundation giving accounted for 5.9% of total philanthropic contributions (Teltsch, 1989). Only six of the top 40 largest private foundations decreased their level of giving between 1986 and 1987, when the impact of the stock market would have been most severely felt, and only two of the six cuts were of a significant amount (*Chronicle*, 1988).

### *Trends in Giving*

The combined charitable giving of individuals, foundations, corporations, and estates was, at \$104.3 billion, higher in 1988 than ever before and \$10.6 billion more than 1987 levels (Teltsch,



1989). Of the total donated in 1988, individuals provided \$86.7 billion, 83% of the total through direct contributions to charities of their choice or through United Way, Combined Federal Campaign, or other employment-based contributory programs.

Seen in perspective, 1988 charitable gifts exceeded Federal expenditures for nonmilitary goods and services and was almost equal to the total dividends paid by corporations to stockholders (Teltsch, 1989). The level of private giving has matched the direct revenue losses of federal revenue experienced by non-profit organizations. Trend data suggest that, by 1986, the gains in private giving more than offset federal budget cuts and that, into 1989, nonprofits will be able to exceed their 1980 spending levels (Salamon & Abramson, 1988). Salamon and Abramson (1988) caution, however, that the growth in private giving may not be directed to the types of organizations that lost the most federal support, e.g., those in the social services, advocacy, employment and training, and community development.

### *Government Support*

Despite the impressive record of charitable giving, government still represents a major source of funding for voluntary agencies. And since federal social service appropriations have been reduced, the government funds came from elsewhere. State governments were the primary source.

Between FY 1982 and FY 1988, federal support to voluntary organizations decreased by an estimated cumulative total of \$26.7 billion. Adjusted for inflation, the value of federal support to voluntary organizations as of FY 1989 is 22% below what it was in FY 1980 (Salamon & Abramson, 1988).

Despite federal cuts, the United Way of America (1988), reporting on its agencies for 1987, found government to be the largest single source of income (42%) for its member agencies. A study comparing public social service expenditures in New Hampshire, Connecticut and Massachusetts for FY 1981 and FY 1987 found that all three states experienced substantial spending increases (Smith & Stone, 1988). FY 1987 spending levels were up 60% in Massachusetts, 58% in Connecticut, and 25% in New Hampshire. In general, these funds were allocated to the purchase of services from not-for-profits. In FY 1987, 70%

of the budget of the Massachusetts' Department of Social Services was earmarked for contracting for services (Smith & Stone, 1988). In New Jersey, in contrast, for FY 1989, only 30% was used for contracting out, but still represented over \$100 million (William Waldman, personal communication, May 12, 1989). Clearly, state agencies have, at least through 1988, partially compensated for federal cuts through higher state appropriations, a sizable proportion of which are allocated for purchase of service from not-for-profits.

### Coping Strategies

#### *Profit-Nonprofit Ventures*

A growing number of voluntary health and human service agencies have successfully developed mutually beneficial linkages with corporations looking to market their products. Entitled "cause-related marketing", examples include advertising or coupon campaigns in which a product is linked with a voluntary cause, such as the Arthritis Foundation, Children's Hospital, or Boys Town. For each coupon cashed in, the non-profit receives a percentage, usually up to \$100,000. Significant dollars are raised for the charity and corporate sponsors experience positive public relations as well as increased product sales.

Cause-related marketing has received mixed reviews from observers. Some fear that it will become a substitute for direct philanthropic contributions and/or that it will replace corporate community involvement in issues such as education that are not of immediate business concern. Others fear that not-for-profits may "sell out" to corporations, losing sight of their mission (Goldberg, 1987). The less popular causes may also be eliminated from the competition. Others view cause-related marketing as an opportunity to promote new corporate revenues (Jellinghaus, 1987). The linking of corporate giving and marketing suggests that corporate philanthropy is increasingly viewed as a business investment.

#### *Use of Corporate Models*

The application of corporate business models to the management of most voluntaries is another strategy that has been

adopted to ensure organizational viability. Not-for-profits, for example, have been moving toward corporate board structures and titles. Executive directors are becoming executive vice presidents or chief executive officers. Voluntary boards may elect chairpersons rather than presidents. The difference is not just semantic; the intent is to identify with and use for-profit operating styles. Indeed, entrepreneurial styles and approaches are coming to be viewed as essential (Flaherty, 1986; Drucker, 1989).

The case of the United States Service Organization (USO) is instructive. In 1986, the USO carried a \$1.5 million debt. A major cause of the problem was the reduction in United Way contributions to the USO; in 1988, the United Way was contributing less than one-third of its 1980 level (Chandler, 1988). Dissolution or a quick financial fix were the only options.

By the end of 1987, the USO had paid off its debts and had close to a \$1 million surplus. The turnaround was attributed to the imposition of "hard-headed" business management policies and an aggressive fund raising plan targeted at major corporations. All Board members were expected to give to or secure funds for the organization. To increase its appeal to corporate donors, the USO projected its image as that of patriotism and pop culture and sold commercial sponsorships for its celebrity tours (Chandler, 1988).

In 1987, the USO received more than \$1 million in donations and free services from major corporations. Although the USO has been charged with excessive commercialism, its successes were real and typical of the strategies some not-for-profits have implemented (Chandler, 1988).

### *Diversifying Revenues*

Diversification of revenue sources has become an important means to ensure some degree of balance and independence. National health agencies have been particularly successful in diversifying. In FY 1986, for example, the American Diabetes Association (ADA), received 18% of its revenue from literature and materials subscriptions and sales, 29% from contributions, 8% from bequests, 11% from membership dues and program service fees, 14% from federated campaigns, 15% from special events, with the remainder coming from "miscellaneous"

sources. Less than one percent of ADA's income came from government fees or grants (American Diabetes Association, 1987).

The eighteen percent of ADA income from the publications and other sales is an example of the growing tendency to institute fees-for-services. It is one of the few income generating activities over which managers have control (Demone & Gibelman, 1984). In service rendering agencies, such as community mental health centers or family service agencies, one means of enhancing revenues is to be more vigorous in fee collection, charge higher fees and/or secure third-party payments. In turn, more and more services are classified as health to meet vendorship requirements. Among all United Way affiliates reporting for 1987, 18.7% of their income came from fees and dues (United Way of America, 1988). Agencies are now selling pamphlets and newsletters that were earlier distributed free of charge. Mailing lists have a price tag on them. Books purchased from publishers at substantial bulk discounts are sold individually at market prices. The trend for voluntaries to offer constituents tangible items that can be marketed and sold is likely to increase.

Many not-for-profit hospitals and some social service agencies have established free-standing for-profit subsidiaries in activities with earnings potential. Fees-for-services, profit making activities, and free standing subsidiaries, however, are not without their risks. Some consumers may be priced out of the market, with the service system unable to accommodate to the uninsured or low-income individuals. New Jersey's not-for-profit drug treatment system is moving to a two tiered structure; immediate services to those financially able to pay and waiting lists of up to several months for clients lacking resources.

Profit-making activities by not-for-profits have already led to tensions with the business sector, as highlighted in the recent report *Unfair Competition? The Challenge to Charitable Tax Exemption* (Wellford & Gallagher, 1988). Congress is considering changes in the taxation of unrelated business income based on criticisms that the Internal Revenue Service has been too permissive in classifying income-producing activities as unrelated. Cause-related marketing has been cited as one example of income that should be subject to tax (Touche, Ross & Company, 1986).

*Using Resources to Secure Resources*

Many charity organizations have put more resources into "getting" to encourage charitable giving. Many not-for-profit health and human services agencies have increasingly recognized the need to employ specialist fund raisers. Although the data suggest that the emphasis on fund raising has produced successful dollar outcomes, the possible goal displacement implications have not been carefully examined. It may well be that many organizations have diverted resources, time, and effort to procuring funds, with clarity of organizational mission and program integrity being the losers.

*Strength Through Unity*

Not-for-profits often compete with each other for private contributions and government grants and contracts. Competition, however, can become secondary when there is an external, common threat demanding unified action. Reaganomics was perceived as one such unifying threat (Brieland, 1982). Collective action was oriented to two issues: fighting government budget cuts or at least "holding the line" and promoting charitable giving in principle. In 1986, members of Independent Sector initiated a comprehensive campaign to promote giving and volunteering. This nationwide campaign, entitled "Daring Goals for a Caring Society" aims to build public commitment to private philanthropy and personal community service and to strengthen the programs and services provided by voluntary, nonprofit agencies. The specific goal is to double the level of giving and increase volunteering by 50% by 1991 (Independent Sector, 1986).

Brian O'Connell, president of Independent Sector, noted that this is the first time that there are "specific standards of what individuals' should be giving and a model by which people can evaluate their own voluntary efforts" (As quoted in Bailey, 1986, p. 29). The concept that such giving should become normative may have important long-run implications. It was made clear by spokespersons for Independent Sector, however, that the emphasis on individual and private philanthropy should not be construed as a way to diminish government's basic role and responsibility (Bailey, 1986).

The not-for-profits have also gathered strength by joining together as advocates and lobbyists. Not since the 1960s has there been a rallying point for the whole of the health and human services community. The American Hospital Association and its state affiliates have become formidable voices for their industry. Community mental health programs have similarly organized and now coalitions of agencies representing a broad spectrum of health and human services interests and spanning public, profit, and not-for-profit agency types have developed in many states. One result is a broadening and strengthening of the social welfare constituency. Government and voluntary agencies may represent different sides in contract negotiations, but they hold a common interest in maintaining government funding levels and can be powerful political allies.

#### Achievements in Context

Taken on face value, available data suggest that a significant number of national voluntary agency networks have successfully held or expanded their revenue generating capabilities during the 1980s. Although it can be ascertained that these agencies have compensated for sizable reductions in federal funds, it is less clear that they have been able to expand their service delivery capability to offset a decreased public service role. The relatively positive preliminary findings about the stability and growth of not-for-profits are also specific to the matters studied. There are contrary trends elsewhere.

Politics is an important variable. Elimination or cuts in government-funded programs were selective, with the more popular and visible programs, including those with political bases, in a stronger position. The Democrat controlled Congress, with the backing of public interest groups and concerned professionals, was successful in selectively holding the line. Local, and especially state governments were vigorous in their efforts to compensate for federal losses.

Widespread top administrative support for certain types of programs added immeasurably to the level of public attention they received. Nancy Reagan's championing of drug abuse, for example, helped to maintain interest in and funding for this social problem, even though the focus has largely been on

interdiction rather than treatment. The emphasis on family, too, may have contributed to support of CWLA and FSA agencies. Alcoholism, on the other hand, has been caught in a new wave of neo-temperance, with challenges to disease-based theories and emphasis on alcohol problems and law enforcement.

Given the importance of political influence, the fate of voluntary agencies representing the less vocal, popular, or influential interests—the poor, homeless, and abused—remains a strong concern. The government's role in protecting and enforcing the interests of certain groups in our society (i.e., women, minorities, the poor) has been challenged by the Reagan Administration. In an attempt to drastically reduce domestic spending, some federal health and social welfare programs were eliminated, including general revenue sharing (with some human services impact) and public health service hospitals (exclusively human services). Between 1980 and 1987, urban and community development programs were cut nearly in half. Eligibility requirements for food stamps and other entitlements for the poor were tightened and Social Security, Medicaid and Medicare rules were modified toward the goal of cost containment (Blustein & Kenworthy, 1988). There is little evidence to suggest that voluntary agencies have initiated programs in these areas to compensate for services previously provided directly by government.

The homeless, the underclass, the growing number of poverty-level female-headed households, the underemployed, are additional examples of people with problems whose advocates were not successful in breaching the Reagan Administration policies. Appropriations for the Stewart B. McKinney Homeless Assistance Act of 1987 (P.L. 100-77) have repeatedly fallen significantly below authorized levels and in FY 1988, no new funds at all were appropriated (Gibelman, 1989). Those organizations offering legal assistance and advocacy, job training and employment services all suffered. Housing starts for those with low income declined substantially. In general, the agencies studied here provide more traditional and main stream services and thus were not largely affected by targeted cuts (with the possible exception of loss of special contracts to serve specific populations-in-need).

Some local and national health and social services agencies went out of business during the 1980s; they did not or could not adapt. The National Conference on Social Welfare was dissolved after a history of more than one hundred years. Many voluntaries remain on the edge of financial insolvency. Eighteen of New Jersey's 23 health maintenance organizations operated at a loss for the first nine months of 1988. Cost controls in a volatile environment are increasingly impacting on the health industry.

### Conclusions

There can be no doubt that Reaganomics has had a profound affect on the voluntary health and human services. Selected networks of voluntary agencies have, however, coped well in the Reagan era. They have sought and found a formidable arsenal of income generating strategies. The new reliance on diversified sources of income and the redefinition of voluntary organizations as a special form of business (but a business nevertheless) should provide important precedents for the future.

The voluntary sector is not static; it responds to changes in the economy, government, and social need. Nor does it speak with one voice. New agencies, offering specialized services such as AIDS counseling, have come into existence, in part because government funds are available for evolving, new priority-designated programs. More profit-making organizations have entered the health and human services arena, in some cases displacing, in others augmenting not-for-profits, and creating a new type of competitor. Some not-for-profits have adopted entrepreneurial sidelines to support their primary objectives. A possible outcome is an accelerated blurring of some of the characteristics of not-for-profits and for-profits, just as, earlier, we witnessed a blurring between government and the voluntary sector.

The scenario continues to change, with evolving challenges to not-for-profits. Now voluntaries have to worry about Busheconomics and state revenue shortfalls. Some of the concern is related to the extraordinary federal budget deficit and some to uncertainty. In the post-Reagan era, however, there is opportunity to look for new approaches and solutions.



Privatization (which, in the United States, favors the transfer of service management, delivery, and, to the extent possible, financing to the private sector, but still includes some financing and monitoring roles for government) will be the dominant theme. Private participation will be increasingly required and fund raising will expand, although positive results may now be more difficult to obtain. Certainly the current bleak fiscal picture for most of the industrial states does not stimulate great optimism, although the recovery of California and Connecticut are instructive. Compensating for these financial complications is the strengthened relationship between the public and private human services and their enhanced political skills. They are becoming impressive advocates and will not be shunted aside easily.

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