

*Nonprofit  
Organizations  
and Faith-based  
Initiatives:  
What the Private  
Sector can  
Contribute to the  
Pursuit of the  
Public Interest*

by

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November 2008

***POLICY***  

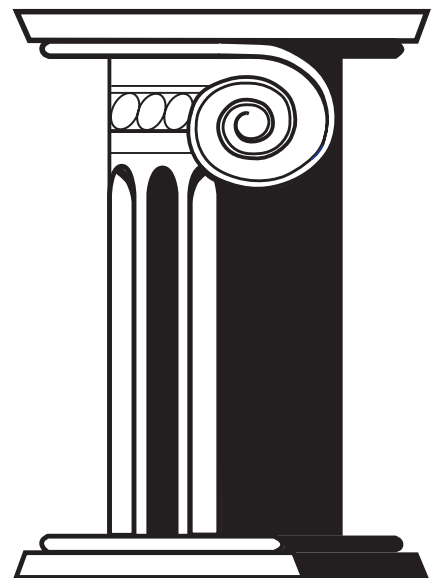
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# *Nonprofit Organizations and Faith-based Initiatives: What the Private Sector can Contribute to the Pursuit of the Public Interest*

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It has been said that the quality of a nation can be seen in the way it treats its least advantaged citizens ...the state of nonprofit America is surprisingly robust as we enter the new millennium, with more organizations doing more things more effectively than ever before.

Lester Salamon, *The Resilient Sector: The State of Nonprofit America*

The search for meaning and purpose in life begins at the bottom and works its way up. It starts with a call to moral regeneration and personal responsibility in which faith-based organizations (FBOs) can play a crucial role in curtailing the destructive behavior ruining the lives of millions of Americans...To nurture change, federal, state, and local governments, through administrative reforms and legislation, must nurture and encourage FBOs.

Lewis D. Solomon, *In God We Trust? Faith-based Organizations and the Quest to Solve America's Social Ills*

## Executive Summary

There is substantial support for the impact of nongovernmental actors to operate in policy areas once dominated by government. These actors, including private, nonprofit and faith-based organizations,

are increasing in quantity and influence. Many public services are now delivered through nongovernmental organizations, such as nonprofits.<sup>1</sup> Since 2001, the federal government, especially under President Bush's first administration, along with many cooperative state and local government efforts, has tried to meet many of the public's demand for social and welfare services through the use of faith-based organizations, including churches and para-church ministries.

The United States has moved from an intergovernmental to an inter-sectoral<sup>2</sup> or inter-organizational<sup>3</sup> administrative and policy system, one where the working relations between units of government are no longer sufficient to meet increasing societal and citizen demands for service delivery; it requires that government agencies, departments, and organizations work with various private, nonprofit, and faith-based organizations to effect policy changes and deliver vital public services. By sailing more often and more deeply into the waters of public service, nonprofits and faith-based organizations have become a more significant part of the puzzle of administration in the public interest. The public interest is no longer — if it ever was — the sole domain of government; it is frequented by the influence of the private, nonprofit, and faith-based sectors of society.<sup>4</sup>

# Executive Summary

*“The state of nonprofit America is surprisingly robust as we enter the new millennium, with more organizations doing more things more effectively than ever before.”*

# *Nonprofit Organizations and Faith-based Initiatives*

*“The role and function of nonprofits, and especially faith-based organizations and initiatives, is to address the community demands and needs with a human touch and to do so working in conjunction with both government entities and the private sector.”*

Nonprofits have been in existence from the beginning of the nation. To paraphrase the Christian scriptures, nonprofits, through volunteer organizations and efforts, provide homes for the homeless, work for the unemployed, clothes for the naked, and food for the hungry. They operate largely based upon volunteer effort, and so it is important that they engage in administrative and management actions promoting efficiency, effectiveness and economy. They also exist to meet public needs through service delivery mechanisms. So, on the one hand they must be flexible in their mission and purpose to meet the challenges of the market, while continuing to focus on the needs of the public clientele and citizenry they were chartered to serve.

One type of nonprofit organizations is faith-based; that is, they are organizations that have a faith or spiritual basis to their mission. These types of organizations, of course, create a controversy with advocacy organizations like Americans United for the Separation of Church and State, who contend that the government should have no contact with religious organizations. Since 2001, however, faith-based organizations have made a substantial impact upon the poor and needy, working jointly with private and public sector organizations and agencies to provide services that would otherwise not be provided.

Daryl Vanderwilt, the Executive Director of the Iowa Center for Faith-Based and Community Initiatives, also serves as the Director of the Larned A. Waterman Iowa Nonprofit Resource Center. Vanderwilt’s primary focus is to connect federal grant dollars to the groups who address community problems and build social and financial capital for Iowa’s faith-based community aid organizations. Since 2006, over \$200 million and nearly 400 grants have been supplied to both secular and faith-based organizations.

The role and function of nonprofits, and especially faith-based organizations and initiatives, is to address the community demands and needs with a human touch and to do so working in conjunction with both government entities and the private sector. With inter-sector collaboration come challenges to successful partnerships. There is definitely a need to strengthen these relationships in order to meet a large number of social and health care demands that might not otherwise be met by the government alone.

The time to think outside of the governmental box is not the future — it is the present. As one observer notes, we live in a “transformed society,” one in which the old engines of the past will no longer drive the vehicles of the present and future. Government alone is not

the sole answer. It must work in conjunction with the nexus of private nonprofit and faith-based organizations to meet the ever-increasing needs of society.

### **Nonprofit organizations: Foundation for civil society**

Nonprofit organizations have contributed significantly to the governance process over the past several decades. However, depending upon how one defines and examines nongovernmental organizations, their influence goes back much farther. Theda Skocpol argues that voluntary associations, particularly those with a civic focus, date to the nation's founding.<sup>5</sup> Marvin Olasky contends that the influence of religious faith — especially Christianity — pre-dated what we term faith-based organizations, extending back to the pilgrims landing at Plymouth. Olasky's argument is that reaching out to others — which is what nonprofits and faith-based organizations are supposed to be all about — is not centered in organizations, per se, but in the human desire to help others.<sup>6</sup> Lester Salamon, a recognized authority on the role of nonprofits in American society, concurs, "Like the arteries of a living organism, these organizations carry a life force that has long been a centerpiece of American culture — a faith in the capacity of individual action to improve the quality of human life."<sup>7</sup> Suffice

it to say that the contributions of people, resources, and ideas, whether voluntarily associated or professionally organized such as in today's nonprofit and faith-based arenas, is significant to the overall governance and administration process in the public interest.

### **What are nonprofits?**

Nonprofit organizations consist of private organizations "that are prohibited from distributing any profits they may generate to those who control or support them."<sup>8</sup> Nonprofits are not like their private sector counterparts, which exist for the sole purpose of generating profits for their shareholders, but neither are they like the public sector agency, which is controlled by political, regulatory, and constitutional influences. Instead, nonprofits, including faith-based organizations, straddle both areas. They are private organizations, so it is important that they engage in administrative and management actions promoting efficiency, effectiveness, and economy, but they also exist to meet public needs through service delivery mechanisms. They must be flexible to meet the challenges of the market, while continuing to focus on the needs of the public clientele and citizenry they were chartered to serve.

Why do nonprofits exist? First, they are designed to first and foremost serve the public inter-

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# Nonprofit Organizations and Faith-based Initiatives

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est. Gita Gulati-Partee, program director of public policy at the North Carolina Center for Nonprofits, writes “A nonprofit organization is a private corporation that works for the *public’s benefit* (my emphasis) but is separate and independent from government.”<sup>9</sup> Further, the National Council of Non-profit Associations, which is a network of nearly 40 state and regional associations representing 22,000 nonprofits, strives to see that nonprofits work “together for the public good.”<sup>10</sup> And Lester Salamon contends that nonprofits are “dedicated to mobilizing *private initiative for the common good* (his emphasis).”<sup>11</sup> Clearly, nonprofit organizations are designed to meet not only the specific needs of individuals and clientele groups, but in so doing meet the demand of the greater public interest.

Second, nonprofits fulfill a great human need to serve. They are motivated to pursue goals that benefit society, to help children, elderly, and homeless. As Brookings Institution researcher Paul Light notes, nonprofit workers are “motivated primarily by the chance to do something worthwhile, savoring the chance to make decisions, take risks, and try new things.”<sup>12</sup> Where government agencies cannot do the job, where they are unable to reach beyond their regulated boundaries, the nonprofit community is able to meet the social, welfare, or economic

needs of the public. Nonprofits exist for the good of all, not the select interests of a few.

## Scope and growth of non-profits

Nonprofits are designated by the Internal Revenue Service (IRS) as an organization that does not distribute profits to shareholders. The National Center for Charitable Statistics, a research subsidiary of The Urban Institute, divides nonprofit organizations into three groups: 501 (c) (3) public charities, 501 (c) (3) private foundations, and “other” nonprofit organizations. Public charities, which account for more than 60 percent of all registered nonprofit organizations, include education, health care organizations, and other human services organizations. Private foundations are generally established by the philanthropic endeavors of a family or individual. Their primary purpose, therefore, is to fund other nonprofits. Finally, the “other” category includes everything from trade associations and labor unions to social and recreational clubs. The largest number of nonprofits, over 876,000, falls into the first category, as do the nation’s approximately 350,000 religious congregations.<sup>13</sup>

The number and revenue generation of nonprofits is staggering. By most accounts, the total number of nonprofits increased from 1.1 million in

1995 to 1.4 million in 2005, a 27.3 percent change.<sup>14</sup> By 2005, public charities reporting to the IRS declared revenues of over \$1 trillion (a 56 percent increase adjusted for inflation since 1995) and assets equaling nearly \$2 trillion (an 84 percent increase adjusted for inflation since 1995).<sup>15</sup> Private charitable contributions reached over \$295 billion in 2006, an increase of nearly 30 percent in current dollars (but only 10 percent in constant dollars) since 2000. Approximately one-third of private giving in 2006 went to congregations and other religious organizations (what we call “para-church” organizations). Finally, foundation giving exceeded \$36 billion in 2005, which was a 142 percent increase since 1995, adjusted by inflation.<sup>16</sup>

The number of volunteers rose dramatically over the next seven years — largely because of the 9-11 effect — to approximately 15 million, with nearly 13 billion volunteer hours logged.<sup>17</sup> Even when broken down by paid and volunteer workers, The Johns Hopkins University Center for Civil Society Studies reports that U.S. nonprofits had 9.4 million paid workers and another 4.7 million “full-time equivalent” volunteers, for a total workforce of 14.1 million as of mid-2004.<sup>18</sup> This equates to over eight percent of the wages and salaries paid in the United States.<sup>19</sup> Thus the growth of the nonprofit world is staggering.

What is the impact of nonprofits upon society today? Clearly, without the number, size, and growth of nonprofits, including faith-based organizations, the swath of human services delivered would be negatively affected. Nonprofits arise where government agencies are oftentimes ill-suited to meet the service need. Also, many, if not most, nonprofits are locally “born and bred,” meaning they have close community links and are much better at addressing local needs. Because various cultural factors in society are influential to the initiation and development of nonprofits, including family, church, and school,<sup>20</sup> many nonprofits contribute back and are thus part — if not the heart — of the community they exist in. Habitat for Humanity in Erwin, NC, for example, exists to meet the living needs of many low-income citizens in Harnett County, without which services many would not have suitable living accommodations. Donations to Habitat for Humanity in central Harnett County, as in the many thousands of other locations around the country, come from individuals, educational organizations, church congregations, and para-church ministries.

Nonprofits establish partnerships with public sector organizations. At the University of North Carolina-Chapel Hill’s School of Government (UNC), research work is examining the partnering relationship.<sup>21</sup> UNC

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scholars Margaret Henderson, Gordon P. Whitaker and others make up the project team working on the Project to Strengthen Nonprofit-Government Relationships. Much of their work is directed toward discovering how and why municipal and county governments in North Carolina do interact (or not interact) with nonprofits. Too often collaboration on issues is infrequent or even non-existent. This is not because the two entities fail to realize various problems are readily apparent. It is often because of obstacles, such as having different perceptions as to what is the problem, lacking understanding concerning each other's work, dealing with the economic effects and different cultural bases of a county, town, or community, or working with an unbalanced political and organizational power arrangement.<sup>22</sup> Each of these obstacles can be overcome through more frequent and accurate communication, which in turn establishes greater trust by the recipients of services in both the public agency and the nonprofit organization.<sup>23</sup>

## **Explaining the rise of nonprofit organizations**

What explains the nonprofits rise to prominence? Several theories are worth noting. They help explain how and why nonprofits, mostly public charities, became so important to development and implementation

of a myriad of service delivery functions. The following section briefly discusses four such theories.

First, nonprofits rose to prominence because of the emergence of the welfare state. The institutionalized welfare state faced endless problems: homeless people on the streets of New York City, unwed and uneducated mothers with four children living in Chicago's low-income housing needing Food Stamps to live on, English language programs for Hispanic immigrants in south central Los Angeles, and literacy needs for poor whites living in abject poverty in rural Appalachia. Not all these problems could be solved or attended to by the government, but localized efforts through nonprofits and faith-based initiatives could address many of these problems.

Second, nonprofits arose largely due to the growing dissociation between the market and government. Lester Salamon contends that "...it was to get away from such blurring of the boundaries between the public and private sectors that the concept of the private nonprofit sector was invented."<sup>24</sup> Nonprofit organizations were able to target specific areas of need that were either overlooked by government agencies or where the government failed to deliver adequate services, such as in the areas of criminal justice and inmate rehabilitation.<sup>25</sup>

The basic argument is that neither the market nor the government could produce these goods (or services) in sufficient quantity to be of worth. The market cannot produce these goods that voluntary associations produce because the market demand is low. Government can tax its citizens to produce the good — called the free rider problem — but even then the government has problems. For example, the government will only produce the goods that receive majority support, which leaves certain groups without goods simply because they cannot convince the majority of the citizenry to adopt their views on what is needed. Therefore, in order to meet this demand for collective goods, the voluntary sector emerged. It “supplies a range of ‘collective goods’ desired by one segment of a community but not by a majority. From this it follows that the more diverse the community, the more extensive the nonprofit sector it is likely to have.”<sup>26</sup>

Third, nonprofits increased due to what one researcher calls “contract failure.” The primary focus is that for services directed toward a certain age or demographic group, such as the elderly, “the purchaser is not the same as the consumer,” so “...the normal mechanisms of the market, which involved consumer choice on the basis of adequate information, do not obtain.” The nonprofit organization provides that assurance,

given that they are in business not to make to a profit, but to meet charitable needs.<sup>27</sup> For example, para-church organizations, such as homeless shelters and detoxification units, like the John 3:16 Mission in Tulsa, OK, regularly and consistently extend food, shelter, and counseling services to clientele who cannot pay for the service, nor is there any expectation for them to pay for the service. The argument is that nonprofits would more likely be able to be trusted than would the private sector (i.e. because of the profit motive) or even the government sector (i.e. for partisan positioning and bureaucratic red tape) in providing these types of services.

Fourth, nonprofits increased in size and importance because of their status as “third-party government entities.” The welfare state theory, for example, fails to account for the diverse and complex intergovernmental relations, usually called New Federalism, and its various derivations that sprang to life in the early to mid 1970s. It advocated devolution (or giving away authority) to lower levels of government — states, counties, and municipalities — for the administration and in many cases increased funding of programs, such as Medicare and Medicaid. In addition to governmental agencies and organizations, it abdicated responsibility to a variety of other entities, such as research and development (universi-

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*“Voluntary responses, on the other hand, are like Edmund Burke’s ‘little platoons,’ where individuals and community interests realize that they are often the first line of defense (or offense for that matter) to meet the need for addressing, for example, neighborhood crime through the formation of watch groups.”*

ties), health care administration (hospitals), and social service delivery (faith-based organizations).<sup>28</sup> In addition, market-based theories (i.e. market and contract theories), failed to take into account the vast number of individuals with needs that were not adequately being met through a demand and supply relationship, one that measures success through accumulation of profit and meeting a bottom line. “The result is an elaborate system of ‘third-party government’ [where] government shares a substantial degree of its discretion over the spending of public funds and the exercise of public authority with third-party implementers.”<sup>29</sup>

What happens when the nonprofit organizations cannot meet the need? Was the American Red Cross able to meet every human need on that fateful day in September 2001, or for natural disasters such as hurricanes Katrina, Ike, and Gustav? The answer, of course, is no. Can faith-based, or even secular social service organizations, meet all shelter, medical, job skill development, rehabilitation, alcohol and drug recovery, and a myriad of other human needs without government assistance? The answer is again no. In other words, there are substantive as well as financial needs that government — not the voluntary sector — has and should provide to fill in the gaps left by the voluntary sector. But as important is the realization that for current and

future needs to be met requires not only “intergovernmental relations,” but also “inter-organizational” cooperation, i.e. between government and non-governmental entities, organizations, and institutions, such as nonprofit organizations.

Governments do not act unless the problem becomes a formal issue, it’s placed on the institutional agenda, majorities are collected to support government action, laws are written, rules are made, and the governmental machinery rumbles into action. It is slow, ponderous, and time-consuming. Voluntary responses, on the other hand, are like Edmund Burke’s “little platoons,” where individuals and community interests realize that they are often the first line of defense (or offense for that matter) to meet the need for addressing, for example, neighborhood crime through the formation of watch groups. As one observer acknowledges “...government involvement is less a substitute for, than a supplement to, private nonprofit action.”<sup>30</sup>

## **Historical development of the nonprofit sector**

Approximately 90 percent of nonprofit organizations came into existence since the close of World War II.<sup>31</sup> With the millions of GIs returning to civilian life, the drain on government resources increased, especially educational services, and

by the 1960s under President Johnson's Great Society program more and more nonprofit activity took place, particularly in the area of social and health services. All of these areas were strongly influenced by the presence of nonprofit organizations. However, the history of nonprofit or voluntary associations does not begin in 1945, at the turn of the 20th century, or during or after the Civil War; no, the antecedents of voluntary associations, whether for membership or public service, dates to pre-Colonial days.<sup>32</sup>

Unlike today, where the distinction between public and private is somewhat notable, even though some scholars claim a blurring effect exists between the two institutions,<sup>33</sup> the distinction between private and public institutions was less noticeable more than three centuries ago. This was particularly true with the institutions of church and state. From Jamestown (1607) to Plymouth (1620) and forward to the colonization of America from the early to late eighteenth century, church, civic government, family, education, philanthropy, and other social capital endeavors moved and merged from the same philosophical and institutional foundation: civic justice and human governance. Instead of voluntary activities and commitments on the part of individuals, civil governments required public service of their citizens, whether in the form of road building, militia training,

educational service, or care for family members.<sup>34</sup> One of the primary types of nonprofit institutions is organized religion.

From 1740-1760, the United States experienced an unprecedented religious revival called the Great Awakening. It was social and political as well as religious in nature, sweeping evangelicals and born-again Christians into not only the pews but positions of civic and economic influence. This religious transformation of colonial America laid the foundation for civic freedom organizations, such as the Sons of Liberty, which assumed leadership toward "resisting British rule."<sup>35</sup>

Whenever colonists banded together to resist what they perceived was British tyranny, through the formation of such groups as the secret Freemasons, the members realized how much potential there was in a company of many like-minded folks. Other Founding Fathers, such as Thomas Jefferson, feared that just like unchecked civil government, unchecked voluntary associations held the recipe for abuse of power. Government-sponsored charters of corporations was a partial solution, but it was not until Jefferson supported the government's responsibility for higher education — and thus the establishment of his beloved University of Virginia — did the state begin to take a more active role in controlling the burgeoning influence of voluntary associa-

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tions, especially those affiliated with religious meaning, intention, and instruction.

One of the more famous struggles taking place between the Jeffersonians and Federalists at the beginning of the 19th century was the battle for incorporation for Dartmouth College.<sup>36</sup> Instead of the corporation document being recognized as a political tool, where the state could exercise its control over the particular institution, such as a college or university, the Supreme Court argued that the power of incorporation was a “private contract protected from government interference.”<sup>37</sup> This ruling, however, did not apply to state restriction of charities.

Alexis de Tocqueville is credited with romantically painting a picture of a free and unencumbered nation filled with private voluntary organizations, separate from state dominance. Although this was true in the Northeast, it was less so in the West and South, where public institutions held sway. It was not until the Civil War that additional opportunities for what scholars refer to as “further advancing the claims of private eleemosynary enterprise(s)” emerge. The damage caused to the social and civic soul of the United States by the Civil War set the tone for the next half century, with private and voluntary associations of power, especially in the areas of social, religious, and legal leading the

way.<sup>38</sup> For example, the North initiated three such volunteer organizations: U.S. Sanitary Commission, U.S. Christian Commission, and Western Sanitary Commission. The South, on the other hand, due to lack of funds and central government organization, mostly initiated state and local efforts, such as the Georgia Relief and Hospital Association and the Richmond Ambulance Committee. The lone society organized throughout the Confederacy was the Association for the Relief of Maimed Soldiers. The South, led mostly by women such as Felicia Porter, initiated individual voluntary efforts, focusing on loose organizations of family, local community groups, and individuals to address charity and relief efforts.<sup>39</sup>

By the early part of the 20th century, governmental service institutions, especially in the care for the homeless and mentally ill, were abysmal failures, resulting in poorhouses and insane asylums that came no where close to solving the problems; if anything they only perpetuated the misery. As one researcher notes, “The task of responding to the poverty and distress created by the massive urbanization and industrialization the late nineteenth and early twentieth centuries was left largely to local governments and private, charitable groups.”<sup>40</sup>

The New Deal combined a centralization approach to planning

and decision-making at the federal level, with “a formalization of the voluntaristic and associational relationship between business, charity, and government that [former Secretary of Commerce] Herbert Hoover had built during the 1920s.”<sup>41</sup> According to Peter Hall, Hoover’s book *American Individualism* (1922) chronicled the “great inequalities and injustices” caused by modern industry, and he believed that “equality of opportunity, combined with an ethos of service and cooperation... could lead to a new social and economic order.”<sup>42</sup> Hoover believed in the concept of community, a concept that really never became popular until some three to five decades later. He believed that the thrust of charitable giving, assistance, and respect was to come from voluntary associations, with the role of the national government being something akin to an umpire, encouraging the voluntary organizations through less burdensome rules and laws to apply their knowledge, skills, and abilities to the social ills at hand.

Meanwhile, President Franklin D. Roosevelt (FDR) supposedly seized on the idea of government sponsorship of voluntary associations, but with the depth of the economic depression he emphasized central government control of social and economic rebuilding through the alphabet agencies and programs spawned by his vision of New Deal policy. Despite FDR’s

best intentions to further central government domination of the emerging institutionalization of the administrative state, “state and local governments continued to dominate the field.” State and local welfare spending outdistanced federal government spending clear into the 1960s.<sup>43</sup>

From early on, voluntary associations, which now take on the title “nonprofit organizations,” received the lion’s share of their income from government dollars. For example, beginning in the 1940s government contributions to private universities, especially through grants, the GI Bill, and the National Defense Education Act, became the single largest source of higher education revenue.<sup>44</sup> Coming out of the 1950s’ era of federal government investigation into the tax-exempt status of charitable giving, and trying to determine whether or not large philanthropic organizations, such as the Ford, Carnegie, and Rockefeller foundations, were fronting communistic alliances and relationships by funneling millions of dollars into anti-American organizations, charities, foundations, and other voluntary associations became more cognizant of their reporting procedures and revenue generating methods, particularly in light of increased federal government oversight and regulation.<sup>45</sup>

A softening tone came from John D. Rockefeller III. His

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*“Philosophically, the intention of the Reagan administration was to reduce the level and size of the federal government through restructuring the tax system, engaging in a major devolutionary transformation of authority and responsibility to state and local governments, particularly in the area of health and social services, and committing to greater voluntary and private action.”*

call “for a public-private partnership in drafting policies affecting ‘private initiative in the public interest’” acknowledged the complexities and uncertainties of the relationship between government and the private sector that had developed since the war,<sup>46</sup> which included understanding the effects of tax policy upon private giving. It was economist Martin C. Feldstein who, after surveying the field of philanthropy, “found strong connections between tax incentives and giving and suggested a compelling and credible rationale for the special tax treatment of nonprofits.”<sup>47</sup>

Feldstein’s work was accentuated by the results of the blue ribbon commission titled Private Philanthropy and Public Needs, chaired by John Filer, then chairman of Aetna Life and Casualty. The Filer Commission, as it was known, surveyed the role of nonprofits, considered the regulatory and tax issues affecting them, urged that private sector financial assistance be expanded, and called for a permanent commission on nonprofits. In its 1975 report, it concluded that society was indeed composed of a “third” or “independent” sector, one that dominated American life in all aspects could not be overlooked any further.<sup>48</sup> Thus, the nonprofit sector was officially and institutionally recognized. By the 1980s, the election of Ronald Reagan and his ideologically-defined devolution of authority drasti-

cally altered the playing field of nonprofit organizations.

There is no doubt that the Reagan Revolution initiated substantial change in nonprofit giving — economically, politically, and socially. Most noticeable was the implementation of the Economic Recovery Tax Act of 1981, which among other factors provided an across-the-board tax cut of 25 percent over three years, a reduction in the maximum tax rate from 70 to 50 percent, and increased depreciation expense levels.<sup>49</sup> Because 62 percent of nonprofit organizations report that over 41 percent of their revenues come from the federal government in the form of grants and aid and that fees and service charges (28 percent) and private giving (approximately 20 percent) account for the balance, the end result of the tax cuts was a large reduction of the federal government’s involvement in social services, human resource training, and other areas.<sup>50</sup>

Philosophically, the intention of the Reagan administration was to reduce the level and size of the federal government through restructuring the tax system, engaging in a major devolutionary transformation of authority and responsibility to state and local governments, particularly in the area of health and social services, and committing to greater voluntary and private action. Politically, Reagan and George H.W. Bush tried to

encourage private and voluntary giving through nonprofit organizations — Reagan’s Task Force on Private Initiatives and Bush’s Thousand Points of Light initiatives, respectively.<sup>51</sup>

Pragmatically, though, Reagan’s tax cut and devolutionary federalism transformation proved to be a “lost opportunity” to develop public and private partnerships, which in turn devastated the nonprofit industry by having the reverse effect intended. Using survey data, Salamon and his associates at The Johns Hopkins University, concluded three things: 1) Between 1977 and 1982, inflation-adjusted federal spending in social services dropped by 31 percent; 2) federal levels of education spending were down 36 percent by 1989;<sup>52</sup> and 3) private charitable giving was reduced by approximately \$10 billion over the period of 1981-1984.<sup>53</sup>

The 1990s, however, saw a change. With the election of Bill Clinton in 1992, Congress moved to restore federal spending in human and social service areas, including Medicaid. Despite a failed attempt in 1993 to overhaul the private insurance industry with a nationalistic model, the Clinton administration believed that greater federal government involvement was needed, and the result was that between 1989-1994 health (5 percent), income assistance (13 percent), and housing (12 percent) all increased.<sup>54</sup>

With the election of George W. Bush in 2000, a new government-sponsored nonprofit initiative was launched: the faith-based and community initiative. As of January 2001, President Bush signed an executive order that created the White House Office of Faith-Based and Community Initiatives (OFBCI). It was designed to address a fundamental problem: the deliberate oversight of faith-based and community organizations that applied for federal funds. By 2008 and the conclusion of Bush’s second term in office, the OFBCI, in conjunction with similar offices in nearly every state in the Union, was successful at providing federal dollars and political and administrative positioning to incorporate religious faith in human services’ delivery. The Bush White House deems it “the quiet revolution.”<sup>55</sup>

So, what has been the effect of faith-based organizations (FBOs) upon the voluntary sector and human service delivery? What challenges are unique to FBOs? What is the relationship or partnering with governments and public administration, especially at the state and local levels? Let’s address these questions by examining FBOs in some detail.

### **God and government**

The world of FBOs is usually overlooked by political scientists and public policy schol-

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# *Nonprofit Organizations and Faith-based Initiatives*

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ars. Even though the role of FBOs has come to the forefront nationally, largely as result of President Bush’s White House OFBCI, and while FBOs are at work in every state, often times cooperating with state and local government organizations to address a myriad of social and welfare services problems, very little serious scholarly work is done on the subject.<sup>56</sup>

FBOs are nonprofit entities that are linked with the requisite jurisdictional religious community, whether Christian or non-Christian, including congregations, denominations, and national networks that because of their religious and spiritual roots and impact are being called upon to play a greater role in implementing, administering, and managing certain public services. It is clear that FBOs are becoming a larger part of the community development movement, one that tries to build upon the existing social and religious structure that is part of the community.<sup>57</sup>

FBOs are similar to more traditional and largely secular-oriented nonprofit organizations in that they are privately organized, governed, and led in order to meet many unmet needs in the areas of social services. They are also dissimilar, because their explicit mission and purpose is to address these individual and social needs through a framework of values centered on religion hence the term “faith.” In fact the term faith,

or “spirituality,” is favored over religion, because faith is regarded as less institutional-sounding and rules-defining.<sup>58</sup> Faith is considered broader in context and definition than religion, with the world’s three major religious institutions, including Christianity, Judaism, and Islam, able to incorporate various and diverse parts of their spiritual foundations into a working framework supporting service delivery, without necessarily and purposely trying to proselytize.<sup>59</sup>

FBOs are expressive and value-driven, working toward an end that favors the inclusion and even integration of religious faith principles in the development and implementation of service delivery. Lewis D. Solomon, professor of law at George Washington University, ordained rabbi, and author of *In God We Trust* (2003), argues that FBOs are the foundation for moral regeneration in the United States. Solomon claims that “The public interest in FBOs is not a product of heightened religiosity; instead it derives from the public’s exasperation with secular social services, whether offered by a governmental unit or a non-profit provider.”<sup>60</sup>

FBOs raise the standard for social service delivery to a new and different level: they incorporate the human element, motivated by care and compassion. They not only demarcate the areas in society most rav-

aged by the lack of governmental attention, but they do so by pointing out that issues ranging from low-income single mothers with several children and no appreciable job skills to the homeless, widowed, orphaned, and mentally ill<sup>61</sup> require attention that perhaps government or secular nonprofits will not address or if they do address do not see the same positive results. The relationship between FBOs and governments is not new, but the ever increasing attention and influence that is in part given to FBOs through government funding is new.

The battle lines are drawn over whether or not government funding is appropriate and constitutional. The opposition, led by such critics as Barry Lynn, executive director of Americans United for Separation of Church and State, shock organizations such as Ethical Atheist and TheocracyWatch.org, and research organizations, like the Cato Institute, contend for a variety of reasons that government funding of FBOs is clearly unconstitutional and is a deliberate breach of the wall of separation of church and state.

On the other hand, the proponents strongly disagree, led by President Bush and luminaries such as Louis P. Sheldon, founder and chairman of the Traditional Values Coalition; John J. DiIulio, Jr., former assistant to the president and first director of the White House OFBCI; Marvin Olasky, profes-

sor of journalism at University of Texas at Austin and founder of *World Magazine* and author of *The Tragedy of American Compassion* (1992); and many others. They argue that public funding of FBOs — as long as it follows strict federal and state guidelines regarding church-state separation — is not only constitutional, but essential to the amelioration of social and economic decay. Clearly, “compassionate conservatism” is intertwined with government.

Not all of the proponents agree on what is or is not allowable; however, their basic argument is that FBOs are critical to the moral *re*-transformation of American society through the development and implementation of social service delivery via faith-based values and means.<sup>62</sup>

#### **Brief history of faith in human services delivery**

The role of faith and religion is no stranger to supporting human welfare and social services delivery in the United States. Beginning with Jamestown Colony in 1607 and continuing through the 19th century, Americans have responded to the needs of the poor, orphaned, homeless, and others who required some type of financial or other assistance. Ministers such as Cotton Mather, Charles Chauncey Thomas Bacon, and John Wesley and charitable aid societies such as New York’s

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# *Nonprofit Organizations and Faith-based Initiatives*

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Society for the Relief of Poor Widows with Small Children, the Massachusetts Charitable Fire Society, and Richmond, Virginia’s Charitable Association of Young Men are only a few of the thousands of 17th and 18th century examples of human compassion who reached out to the needs at hand, largely without government assistance.<sup>63</sup>

The 19th century was no less active with human intervention to alleviate and mollify human suffering. Irishman Thomas Chalmers’ church-based savings banks and work exchanges were designed to aid the poor and down and out without government involvement. In the early 1800s New York City inhabitants saw the establishment of two organizations: Society for the Prevention of Pauperism and the New York Association for Improving the Condition of the Poor. Both were dedicated to dividing the city into sections with individual society members assigned to oversee the individuals living in the districts, assess their needs, and minister to them as necessary.<sup>64</sup>

The mid- to late-1800s saw individuals, such as Charles Loring Brace, a Yale graduate who believed in the worth of children, seize the opportunity to change the dead-end lives of New York City’s orphan population. Combining character development, Bible training, and room and board, Brace formed the New York

Children’s Aid Society in 1853. Realizing that this was more short-term than long-term success, he formed what became known as the Orphan Train, an attempt to link up orphan children with families living in the West who were in need of part-time workers. Granted, there were many instances of abuse, but at the same time hundreds, if not thousands, of children escaped a dreary future in the slums of New York City to live and work on a farm or ranch in a state like Kansas or South Dakota. The program existed through the early 1890s, and over time stipulations were made that host families treat the children right and that they receive Bible and Christian training.<sup>65</sup>

By the early 20th century, governments worked more closely with private charities. Issues believed to be too large for private charities to handle on their own, including church congregations and church organizations, were pinpointed by promoters of government welfare, such as Reverend R.M. Newton, to assist and direct government aid to the most needy. Publications such as *The Christian Century* believed that reformation of the mind was as important as restoration of the soul and spirit, and that reason and rationalism were essential to the building of a new society, one that saw the need for not only philosophical and higher theological changes, but pragmatic and administrative ones

as well.<sup>66</sup> Eventually the progress of FDR's New Deal policies became the norm, eclipsing what had been for three centuries the primary domain of families and private charities, including churches, church organizations, and faith-based societies: serving and meeting the needs of the poor and indigent. The administrative and welfare state had begun.

### **The basics of faith-based organizations**

FBOs are numerous; however, there are no reliable data on their total number, primarily because the National Center for Charitable Statistics does not classify FBOs separately from non-sectarian organizations.<sup>67</sup> Based upon recent survey information, John E. Seley and Julian Wolpert report some 37 percent of total nonprofit organizations may be religious in nature.<sup>68</sup> The ratios in the Bible belt region of the United States may be even higher. However, to be careful the actual percentage of faith-based human service providers may only be in the 18-20 percent range, placing the total number of FBOs, excluding churches that provide human services, at between 6,500 to 8,000 such organizations.

Robert Wuthnow, Director of the Center for the Study of Religion at Princeton, defines an FBO as a private nonprofit organization affiliated with faith

or religion to provide faith-based social services. Lewis D. Solomon characterizes FBOs in several ways:

1. They are often small, parochial groups.
2. They defy any specific religious affiliation, given that FBOs are Protestant, Catholic, Jewish, Islamic, and even other faiths.
3. They are found in the inner city and suburbs.
4. They are distinctly ethnically diverse.
5. They provide a wide array of human services.
6. They present their faith dimension in some way, either directly or indirectly.<sup>69</sup>

Notice that FBOs are similar to nonsectarian nonprofit organizations in that they attempt to provide human services where and when government cannot or does not do so.

FBOs take on a couple of different guises: churches and para-church organizations. Churches, or congregations, provide thousands of opportunities to meet the needs of the widows and orphans, the poor and needy, and individuals in other classes too numerous to mention. Approximately 87 percent of all churches — and some estimates place the number of Christian Protestant congregations around 350,000, which does not include Catholic parishes — engage in human service provision, including recreation,

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youth camps, meal services, homeless shelters, day care, teenage pregnancy programs, and many more.<sup>70</sup> Para-church, or faith-affiliated organizations, include large nonprofit service organizations such as Catholic Charities, Lutheran Social Services, the Salvation Army, and many smaller organizations that provide shelter to the homeless, food pantries, clothing banks, and even work skills development programs.

Whether the programs are congregation or para-church based, the faith element is extremely important to the development and implementation of the service provision. In a 2002 study, researchers found that the largest percentage (45 percent) of both non-congregation FBOs and churches (or congregations) displayed their faith through action rather than invitation to listen to or partake in their religious beliefs.<sup>71</sup> Likewise, in a 2003 study of five different types of welfare-to-work programs in the urban area of Los Angeles County, researchers in California found that the FBOs, as opposed to government-run, for-profit, and nonsectarian nonprofit organizations, were most effective in increasing clients’ hope and optimism for the future, based in large part upon the FBOs’ message of faith.<sup>72</sup> In a 2008 *World Magazine* spread, Marvin Olasky, founder and editor, described ten different para-church organizations<sup>73</sup> operating throughout the U.S., all addressing the needs of indi-

gents, homeless, addicts, prostitutes, mentally-ill, and many others. Faith is definitely an integral component of FBOs; it is the thing that separates them from their nonsectarian nonprofit counterparts.

Olasky challenges the Bush administration’s bureaucratization of FBOs: the use of “big government” to promote a non-government means to address human ills. While the President was spending billions on his faith-based and community initiative, trying to tout the mantra of “compassionate conservatism,” Olasky argues the administration missed the most vital component of faith-based organizations: the human touch, especially the human touch through voluntary initiatives. Greater attention to decentralization of authority and finances is under way — for example, use of vouchers for Christian programs like Teen Challenge — and revival of true compassion — “suffering with those in need” — is regaining strength.<sup>74</sup>

## **Connection to government and civil sector**

FBOs regained strength with passage of the 1996 Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA), also known as the 1996 Welfare Reform Act, which included Section 104, or the Charitable Choice (CC) amendment. The CC amendment, which was written by

then-Senator John Ashcroft (R-MO), called for nondiscrimination and equal access of federal funding, primarily with regard to state and federal Temporary Assistance for Needy Families (TANF) funds toward religious or religiously-affiliated organizations that provided human welfare or social services. It was expanded to include the Welfare-to-Work grants program, the Community Services Block Grant, and some substance abuse and mental health services programs.<sup>75</sup>

Despite their success, one of the major drawbacks of FBOs is their alleged violation of the separation of church-state principle. Particularly prominent is the CC's provision that prohibits government from stopping FBOs hiring employees based on their (i.e. the FBOs') religious preference.<sup>76</sup> The argument from the FBOs' perspective is that unless they are able to hire individuals who hold to their (i.e. the FBOs') religious and theological/doctrinal viewpoint, then the organization is ultimately defeating itself by not providing a unified front in the service delivery. The opponents' position, of course, is that the process is unconstitutional: government funds should not be spent on unlawful acts of hiring discrimination.

What acts are constitutional? This is not the place to attempt to answer this question to the fullest degree it deserves. Suffice it to say, however, the

roles of religion and government are not and should not be understood to be diametrically opposed. John Witte Jr., a constitutional legal scholar, writes in defense of the use of FBOs: "It is one thing to prevent government officials from delegating their core police powers to religious bodies, quite another thing to prevent them from facilitating the charitable services of voluntary religious and nonreligious associations alike... To press separationist logic too deeply into "unessentials" not only trivializes the place of religion in public and private life... [It] also trivializes the power of the Constitution, converting it from a coda of cardinal principles of national law into a codex of petty precepts of local life."<sup>77</sup> However, as Robert Tuttle, noted expert on religion-based initiatives and law professor at George Washington University, remarked after the Court's ruling against Iowa's Inner Change Ministries Program, it is the intention [of government] to "...reaffirm the obligation... not to fund programs that intermingle secular and religious content."<sup>78</sup>

#### **Faith-based organizations at the federal and state levels**

With formation of President Bush's White House Office of Faith-Based and Community Initiatives came additional cabinet-level agencies to house faith-based centers between 2001 and 2006.

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- 2001: Department of Education CFBCI, Department of Justice Task Force for FBCI, Department of Labor CFBCI, Department of Health and Human Services CFBCI, and Department of Housing and Urban Development CFBCI, Department of Labor CFBCI;
- 2002: Department of Agriculture CFBCI, U.S. Agency for International Development CFBCI;
- 2004: Department of Commerce CFBCI, U.S. Small Business Administration CFBCI, Department of Veterans Affairs CFBCI;
- 2006: the Department of Homeland Security CFBCI.<sup>79</sup>

Each of these departments developed programs to work with various state and local faith-based organizations.

For example, using the No Child Left Behind Act of 2001, the Department of Education encouraged greater awareness of opportunities to assist in strengthening the children and youth's education. Opportunities include FBOs offering mentoring services to children to help lower the drop out rate, partnering with local schools in various programs, such as Even Start Family Literacy Program, integrating literacy training for low-income students and parents. The Department of Hous-

ing and Urban Development's (HUD) Office of Community Planning and Development has a long history of working with FBOs in such areas as Housing for the Elderly or supportive services such as HUD's HOPE VI program, which is geared toward revitalizing rundown low-income housing projects. And, of course, the Department of Justice's Office of Justice Program houses many of the FBOs that provide services in the areas of prisoners and families, victims, and drug-related issues.

State and local governments are prime locales for FBOs. According to federal government numbers, governors of seventeen states have a faith-based and community liaison located within their office, fourteen states have a liaison located in a state agency, and four states have placed their liaison within nonprofit agencies.<sup>80</sup> In our modern federal system of government, state and local governments are the lynchpins between federal programs and federally funded programs. State governments administer the funds, qualify federal rules or make rules of their own, and the local governments, including municipalities and counties, administer the programs.

It is at the state and local levels where the proverbial rubber meets the road. As most officials and policy advocates understand, collaboration is the key to success for FBOs. The

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federal government is and more than likely always will be the primary factor in the funding and delivering of human social services. However, without the increasing input of state and local governments and FBOs, the much needed human services would not be distributed. Study after study has consistently shown the overwhelming use, efficacy, and extent of FBOs throughout the fifty states and in thousands of communities across America.<sup>81</sup>

The State of Iowa, for example, offers a state-appointed Faith-Based and Community Initiative Liaison who also serves as the Director of the Larned A. Waterman Iowa Nonprofit Resource Center. Dr. Daryl Vanderwilt, Executive Director of the Iowa Center for Faith-Based and Community Initiatives, oversees the state's faith-based operations, including developing strong outreach programs and initiatives, grant reviewing, and coordinating work with Grant Station, a national repository for grant information. Vanderwilt's primary focus is to connect federal grant dollars to the groups who address community problems and build social and financial capital for Iowa's faith-based community aid organizations.<sup>82</sup>

Through 2006, Iowa was the recipient of \$204 million through over 400 grant awards, with the vast amount (92%) going to secular nonprofits (\$189,000,000) and approxi-

mately \$15,000,000 to faith-based organizations. Two of the more notable faith-based programs are prison reform programs: Prisoner Reentry Initiative (\$1.3 million) funds nonprofits in five different Iowa cities, and Mentoring Children of Prisoners, also distributed \$1.3 million to nonprofits in five different Iowa cities.<sup>83</sup> A third prison reform program — Inner Change Freedom Initiative, which is affiliated with Charles Colson's Prison Fellowship Ministries, and the Iowa Corrections Department — was found guilty by the Eighth Circuit Court of Appeals of violating "separation of church and state" in 2007. Inner Change operated a voluntary biblically-based program for prisoners. The ruling; however, did not require the ministry to repay nearly \$1.5 million it received from the state of Iowa to run the program.<sup>84</sup>

Last, this policy study provides three recommendations for the continued development and use of nonprofit organizations, especially faith-based organizations and community initiatives. These recommendations are not complete, but they do provide a sketch of the role that FBOs and NPOs can and must play in pursuing and fulfilling the public interest.

## *What the Private Sector can Contribute to the Pursuit of the Public Interest*

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# *Nonprofit Organizations and Faith-based Initiatives*

*“Shouldn’t the public interest include the reality of all of life?”*

## **Recommendations**

1. Faith-based organizations and initiatives should continue; however, a joint federal and state re-examination and re-evaluation of funding strategies and regulations for providing the funding should be made. It is imperative that all legal and political protections are provided for government entities, faith-based organizations, and individual recipients involved, including freedom to hire.
2. Greater attention to promoting inter-sectoral relationships, such as between public and nonprofit entities, should be the focus at all three levels of government, as well as a concentrated effort by the private sector.
3. A joint federal and state Faith-Based Organization and Community Initiative Commission should be formed, with the primary purpose of evaluating the aggregate performance of faith-based organizations since 2001.

## **Conclusion**

With collaboration come challenges to successful partnerships between government and the nonprofit sector. There is a need to strengthen these relationships, primarily because of the nature of a secular society and government that has not, until recently, recognized and embraced the role of private values, including religion and faith, in the mix of effecting change, especially in the social and health care services network. Shouldn’t the public interest include the reality of all of life?

In response, many have called for reform,<sup>85</sup> some have argued for a resilient nonprofit sector,<sup>86</sup> and some have called for a stronger lobbying “voice” for the nonprofit sector.<sup>87</sup> Salamon, for example, argues that the challenges include greater fiscal competition with the for-profit sector, need for greater effectiveness, increasing use of technology, enhanced need for policy legitimacy, and human resource development. At the same time, however, he believes that increased opportunities for the nonprofit sector (and to some extent FBOs) await as well, including changing demographic and social shifts, new pools of money for private philanthropy, greater visibility and salience in the eyes of government officials and the restless public, and, of course, increased government social welfare spending.<sup>88</sup>

The time to think outside of the governmental box regarding how to address the policy issues revolving around social and human services is not the future — it is now. As Donald Kettl has so aptly stated, we live in a transformed society, one in which the old engines of the past will no longer drive the vehicles of the present and future. Government alone is not, nor ever was, the sole answer. It must work in conjunction with the nexus of private nonprofit and faith-based organizations in order to meet the challenges surrounding many of society's perplexing problems.

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