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The Opportunities

Side by side with the significant challenges it has faced over the recent past, nonprofit America has also confronted an important range of opportunities. To be sure, the presence of opportunities is no guarantee that they will be seized. What is more, opportunities can bring their own risks. Yet no account of the state of nonprofit America can be complete without examining the unusual opportunities that have existed. Four of these in particular deserve special attention.[1]

Social and Demographic Shifts

In the first place, nonprofit America has been the beneficiary of a significant range of social and demographic shifts that have increased not only the need but also the demand for its services, and that may hold the prospect for reducing some of its serious human resource problems. Included among these shifts are the following:

—The doubling of the country's elderly population between 1960 and 2000 and the prospect that there will be four times as many elderly Americans in 2025 as there were in 1960.

—The jump in the labor force participation rate for women, particularly married women, from less than 20 percent in 1960 to 64 percent in 1998.[2]

—The doubling of the country's divorce rate from one in every four marriages in the 1960s to one in every two marriages in the 1980s and thereafter; and a resulting sharp jump in the number of children involved in divorces from less than 500,000 in 1960 to over 1 million per year in the 1980s and 1990s.[3]

—A fivefold increase in the number of out-of-wedlock births, from roughly 225,000 in 1960 to more than 1.25 million per year by the mid-1990s.[4]

—The doubling that occurred in the number of refugees admitted to the United States, from 718,000 between 1966 and 1980 to 1.6 million during the next fifteen years.[5]

Taken together, these and other sociodemographic changes have expanded the demand for many of the services that nonprofit organizations have traditionally provided, such as child day care, home health and nursing home care for the elderly, family counseling, foster care, relocation assistance, and substance abuse treatment and prevention. The pressure on the foster care system alone, for example, has ballooned as the number of children in foster care doubled between the early 1980s and the early 1990s. At the same time, the welfare reform legislation enacted in 1996, with its stress on job readiness, created additional demand for the services that nonprofits typically offer. What is more, the demand for these services has spread well beyond the poor and now encompasses middle-class households with resources to pay for them, a phenomenon that one analyst has called "the transformation of social services."[6] Indeed, the acceleration of modern life and the pressures on two-career families has led to what Atul Dighe refers to as the "outsourcing" of key aspects of family life, from child day care to tutoring and party arranging.[7] Since nonprofit organizations are actively engaged in many of these fields, they stand to gain from this trend.

Equally important is the emergence of what Dighe, following demographers Paul Ray and Sherry Ruth Anderson, calls the "Cultural Creatives," a growing subgroup of the population that now numbers as many as 50 million people.[8] Cultural Creatives differ from both "Moderns" and "Traditionalists," the two other dominant population groups in America, by virtue of their preference for holistic thinking, their cosmopolitanism, their social activism, and their insistence on finding a better balance between work and personal values than the Moderns seem to have found. Though they have yet to develop a full self-consciousness, Cultural Creatives are powerfully attracted to the mission orientation of the nonprofit sector, and could well help fill the sector's growing gap in executive talent.

The New Philanthropy

Also working to the benefit of the nonprofit sector are a series of developments potentially affecting private philanthropy. The first of these is the *intergenerational transfer of wealth* between the Depression-era generation and the postwar baby boomers that is anticipated over the next forty years. Estimated to range anywhere from $10 trillion to $40 trillion, this wealth accumulated in the hands of the Depression-era generation as a consequence of their relatively high propensity to save, their fortuitous investment during the 1950s and 1960s in relatively low-cost houses that then escalated in value during the real estate boom of the 1970s, and the stock market surge of the 1980s and 1990s, which substantially boosted the value of their investments.[9] Contributing as well has been the *new wealth* created by the dot.com economy and other powerful economic trends and policies that substantially increased income levels at the upper end of the income scale during the 1980s and 1990s, accentuating income inequalities but leaving substantial sums of money in the hands of significant numbers of people. Between 1979 and 1992, for example, the share of the nation's wealth controlled by the top 1 percent of households climbed from 20 percent to over 40 percent. Indeed, one-third of the projected intergenerational transfer is expected to go to 1 percent of the baby boom generation, for an average inheritance of $1.6 million per person among this select few.[10]

To be sure, the lengthening life expectancy noted above may dissipate much of this wealth in heavy health care and nursing home expenses. What is more, the stock market meltdown of 1999–2003 provides a powerful reminder of the ephemeral quality of much of the presumed new wealth. Nevertheless, with so much money "in play," substantial opportunities likely exist for the expansion of charitable bequests. The fact that 60 percent of the midsize and larger foundations in existence as of 1999 were created in the 1980s and 1990s certainly lends credence to this belief,[11] though legislation passed in 2001 that would phase out the estate tax and thus eliminate the major financial incentive for forming foundations may put a damper on the extent to which philanthropy will benefit from these developments.

Also encouraging for nonprofit prospects are the new strategies of corporate social involvement that have surfaced in recent years, and the greater corporate willingness to engage in partnerships and collaborations with nonprofit organizations that has resulted from them. Although corporate giving growth has proved far more disappointing than many hoped in the early 1980s, numerous corporations have begun integrating social responsibility activities into their overall corporate business strategies. This has been done in part out of altruistic motives, but in part also out of a recognition that such relationships can serve corporate strategic goals—by winning consumer confidence, ensuring corporations a "license to operate" in the face of increasingly mobilized consumers, workers, and environmentalists, and promoting employee loyalty and morale.[12] As such, these initiatives have a more secure base than altruism alone can provide. The result has been to make corporate managers available to nonprofit organizations not simply as donors, but as allies and collaborators in a wide range of socially important missions, from improving the well-being of children to protecting natural resources. While nonprofit reputations may be put at risk through such relationships, there are also intriguing possibilities for extremely productive partnerships.

Greater Visibility and Policy Salience

Another factor working to the advantage of nonprofit organizations has been a recent spate of political developments that has substantially increased their visibility. For one thing, the policy environment ushered in by the elections of Margaret Thatcher in the United Kingdom and Ronald Reagan in the United States brought nonprofit organizations out of the obscurity to which the rise of the welfare state had consigned them over the previous half-century. Conservative politicians like Thatcher and Reagan needed an explanation for how social problems would be handled once government social welfare protections were cut, and the nonprofit sector offered a highly convenient one. Suddenly, attention to the nonprofit sector and philanthropy became a central part of the policy dialogue, even though conservatives had to overlook in the process the inconvenient fact that the nonprofit organizations they were championing were largely funded by the very government social welfare programs they were cutting. When the policy pendulum swung back to the left, as it did with the election of Tony Blair in the United Kingdom and Bill Clinton in the United States, nonprofit organizations remained very much on the policy screen, as evidenced by the "third way" rhetoric in the United Kingdom, the "reinventing government" paradigm in the United States, and similar formulations in Europe, which view active partnerships between government and the civil society sector as an alternative to relying solely on either the market or the state.[13]

Nonprofit organizations also gained visibility as a result of the collapse of communism in Central Europe in the latter 1980s and the proliferation of complex humanitarian crises in much of the developing world.[14] In both cases nonprofit organizations have been prominently involved, stimulating change and offering alternative mechanisms of response. More recently, these organizations have benefited from the growing concerns about the state of civic engagement in the United States. This is so because nonprofit organizations have been identified as crucial contributors to "social capital," to the bonds of trust and reciprocity thought to be necessary to sustain civic involvement. Encouragement of a vital nonprofit sector has thus come to be seen as a critical prerequisite for a healthy democracy.[15]

Finally, the events of September 11 also seem to have increased the public's recognition of the nonprofit sector. As noted earlier, nonprofit organizations were visible participants in the response to this tragedy. Beyond this, the September 11 tragedy seems to have reawakened Americans to the importance of the functions that nonprofit institutions perform, functions such as serving those in need, building community, and encouraging values of care and concern.

Resumption of Government Social Welfare Spending Growth

Finally, and perhaps most important, government social welfare spending, which had stalled, and in some cases reversed course, in the early 1980s, resumed its growth in the late 1980s and into the 1990s. As noted in table 4-1, total public social welfare spending increased 36 percent in real, inflation-adjusted dollars between 1985 and 1995, compared to a 24 percent increase in the country's real GDP.[16] Particularly notable was the 69 percent growth in health spending, but significant increases were recorded in housing, education, and social service spending as well—and these trends have continued through the 1990s. Five factors seem to have been responsible for this growth.

Broadening of Federal Entitlement Spending

In the first place, as noted earlier, spending under the basic federal, and federal-state, entitlement programs for health and income assistance

Table 4-1. *Growth in Real Government Social Welfare Spending, 1985–95*
Percent

Function	*Total*	*Federal*	*State and local*
Pensions	18	13	40
Income assistance	27	34	7
Health	69	67	73
Education	40	9	43
Elementary, secondary	–34	–34	–34
Higher	36	–23	31
Housing	54	63	–10
Social services	23	5	49
Total	36	30	45
Excluding pensions, health	37	29	40

Source: U.S. Social Security Administration, *Annual Statistical Supplement to the Social Security Bulletin* (U.S. Department of Health and Human Services, 2000), pp. 119–222.

grew rapidly during this period. This was due in important part to the steady broadening of eligibility under these programs. For example, coverage under the federal Supplemental Security Income program, which was originally created to provide income support to the elderly poor, ballooned from 4.1 million recipients in 1980 to 6.6 million by 1999, largely as a result of aggressive efforts to enroll disabled people, including children and youth, in the program following a 1990 Supreme Court decision that liberalized SSI eligibility requirements. The number of children covered by SSI increased from 71,000 in 1974 to over 1 million in 1996 as a consequence, boosting expenditures in real terms from $16.4 billion in 1980 to $30.2 billion in 1999.[17] And since SSI coverage entitles participants to coverage under Medicaid, the federal health care financing program for the poor, this increase translated into Medicaid growth as well.

But this was not the only source of Medicaid eligibility expansion. Medicaid coverage was extended to 50 distinct subgroups during the latter 1980s and early 1990s, including many more children and pregnant women as well as the homeless, newly legalized aliens, AIDS sufferers, recipients of adoption assistance and foster care, and broader

Table 4-2. *Growth in Federal Entitlement Program Spending, 1980–99*

Program	*Spending (billions of constant 1999 dollars)*[a] 1980	1999	*Percentage change 1980–99*
Medicare	79.9	212.0	165
Medicaid[b]	56.8	189.5	222
Supplemental Security Income[b]	9.5	30.9	225
Total	146.2	432.4	196
U.S. gross domestic product	4,900.9	8,856.5	81

Source: U.S. House of Representatives, Committee on Ways and Means, *2000 Green Book: Background Material and Data on Programs within the Jurisdiction of the Committee on Ways and Means,* 106th Cong. 2d sess. (October 6, 2000), pp. 100, 912, 214; Council of Economic Advisers, *Economic Report of the President, 2002* (Washington: Executive Office of the President, 2002), table B-2.

a. Based on chain-type price deflators for the service component of personal consumption expenditures.

b. Includes both federal and state spending.

categories of the disabled and the elderly. Between 1980 and 1998 as a consequence, Medicaid coverage increased from 21.6 million people to 40.6 million.[18]

Expanded eligibility was not the only source of entitlement program growth, however. Also important were extensions in the range of services these programs cover. Thus, skilled nursing care, home health care, hospice care, and kidney dialysis services became eligible for Medicare coverage; while mandatory Medicaid coverage was extended to intermediate care for the mentally retarded, home health care, family planning, clinic care, child welfare services, and rehabilitation services. Coupled with an expansion of services made eligible for Medicaid coverage at state option (for example, physical therapy, medical social worker counseling, case management, transportation), these changes transformed Medicaid from a relatively narrow health and nursing home program into a veritable social service entitlement program.[19]

Reflecting these changes, as shown in table 4-2, spending on the major federal entitlement programs jumped nearly 200 percent in real terms between 1980 and 1999, more than twice the 81 percent real growth in the U.S. gross domestic product. Although reimbursement rates under these programs were still often not sufficient to cover the full costs of the services, the expansion in the pool of resources available was substantial.

New Federal Initiatives

In addition to expanding existing programs, federal policymakers also created a variety of new programs to address long-standing or newly emerging social ills. For example, four federal child care programs were enacted in 1988 and 1990 alone, and special programs were added as well for homeless people, AIDS sufferers, children and youth, people with disabilities, voluntarism promotion, drug and alcohol treatment, and home health care. Federal spending on the homeless, for example, went from virtually zero in 1986 to $1.2 billion in fiscal 2000.[20]

Greater State Activism

Renewed federal activism was mirrored, and in some cases anticipated, moreover, by activism at the state and local levels. In some cases, state and local governments replaced cuts in federal spending with their own new or expanded programs. This was the case, for example, in the arts field, where state and local governments more than made up for cuts in National Endowment for the Arts grants to state and local arts agencies.[21] In other cases, states found new veins of federal funding to tap as old ones ran dry.

The most striking example here is what became known as the "Medicaid maximization strategy," under which programs formerly funded entirely by the states, or by federal discretionary programs subjected to Reagan-era budget cuts, were reconfigured to make them eligible for funding under the more lucrative and still-growing Medicaid or SSI programs. Mental health, mental retardation, maternal and child health, rehabilitation, and AIDS services were special targets for this strategy, particularly as Medicaid expanded eligibility for pregnant women and children, and SSI (and hence Medicaid) expanded coverage for AIDS patients and the disabled.[22] Finally, a growing number of states opted to exploit the flexibilities built into the Medicaid program to extend care beyond the required minimums in order to address key social problems, such as teen pregnancy and drug abuse. Thus, for example, as of 1998, thirty-five states as well as the District of Columbia had agreed to extend coverage to the so-called "medically needy" (that is, individuals who are otherwise eligible for Medicaid coverage but who exceed the Medicaid income limits).[23] Twenty-two agreed to offer hospice care, twenty-six agreed to cover skilled nursing facilities for individuals under twenty-one, and thirty-one agreed to provide rehabilitative services.[24] Taken together, these changes explain why state and local social welfare spending grew even faster than federal spending between 1985 and 1995 (45 percent versus 30 percent), as reflected in table 4-1. [25]

The Welfare Reform Windfall

A fourth factor contributing to the recent expansion of government spending in fields where nonprofits are active was the passage of federal welfare reform legislation in 1996 and the subsequent change in the welfare caseload. The Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996 essentially replaced the existing program of entitlement grants to states to help cover welfare payments to dependent children and families with a fixed federal grant that was guaranteed for six years, during which states were required to move welfare recipients into paying jobs.

As part of this legislation, states were permitted to use a portion of these funds to finance not simply welfare payments but also a variety of work readiness, child care, and human service activities. The result was to transform the existing welfare program into "a broad human services funding stream."[26] When welfare rolls began to fall sharply in the late 1990s, thanks to the economic boom then in progress and the stringent work requirements built into the new law, states found themselves with a fiscal windfall since their welfare grants from the federal government were locked in at the preexisting levels while their payments to recipients declined.[27] States were thus able to invest the savings in a variety of service programs designed to prepare even more welfare recipients for work. By 1999, for example, spending on cash and work-based assistance under the welfare program had fallen to 60 percent of the total funds available, leaving 40 percent for a variety of child care, work readiness, drug abuse treatment, and related purposes. As a result, the social welfare system was unexpectedly awash with funds.

New Tools

Finally, given the prevailing climate of tax cuts and hostility to expanded government spending throughout the 1980s and early 1990s, policymakers increasingly responded to social welfare and related needs by relying more heavily on unconventional tools of government action, such as loan guarantees and tax subsidies, which do not appear as visibly in the budget.[28] The use of such tools is by no means entirely new, of course. The deduction for medical expenses and the exclusion of scholarship income, for example, have long been established features of the tax code. But the use of such tools in fields where nonprofits are active expanded considerably in the 1990s with the addition or extension of programs such as the child care tax credit, the credit for student loan interest payments, the Low-Income Housing Tax Credit, and the new market tax credit. As of fiscal 2001, as table 4-3 shows, these alternative tools accounted for another $315.2 billion in federal assistance in fields where nonprofits are active. As reflected in table 4-4, this represents a 123 percent increase in constant dollars over what was available through these tools a decade earlier, a rate of increase that exceeded even that achieved by the spending programs in these same fields. In many fields, such as day care, the indirect subsidies available through the tax system now exceed those available through the outright spending programs.[29] What is more, the new tools generally deliver their benefits to consumers rather than

Table 4-3. *Major Federal Tax Expenditure and Loan Programs of Relevance to Nonprofits, 2001*

Program	*Millions of U.S. dollars*
Tax expenditures (outlay equivalent)	
Insurance companies owned by nps	300
Low-income housing credit	4,360
Empowerment zone	380
New markets tax credit	20
Scholarship income exclusion	1,330
HOPE tax credit	5,300
Lifetime learning tax credit	3,030
Student loan interest deduction	460
State prepaid tuition plans	250
Student loan bond interest deduction	330
Nonprofit education facilities bond interest	770
Parental exemption for students	1,120
Charitable contribution deduction	53,260
Employer educational assistance	320
Employer-provided child care	950
Adopted foster care assistance	220
Adoption credit	160
Child credit	26,460
Child care credit	3,560
Employer medical insurance contributions	106,750
Self-employed medical insurance	1,900
Workers compensation insurance premiums	5,900
Medical expense deduction	4,990
Hospital construction bond interest	1,580
Public purpose state/local bond interest	33,100
Parsonage allowance deduction	400
Subtotal	257,200
Loan guarantee commitments	
Health center guaranteed loan	7
Family education loan program	34,705
Community development loan guarantees	244
Student Loan Marketing Association	3,819
Subtotal	38,775
Direct loan obligations	
Historically black college capital financing	16
Direct student loan program	19,219
Community development financial institutions fund	12
Community development credit union revolving fund	10
Subtotal	19,257
Total	315,232

Source: Analytical Perspectives, *Budget of the United States Government, Fiscal Year 2003* (Washington, D.C.: U.S. Government Printing Office, 2002), pp. 99–101, 213–33.

Table 4-4. *Growth in Federal Tax Expenditure and Loan Programs of Relevance to Nonprofits, 1990–2001*

Type of program	*Amount (billions of constant 2001 dollars)* 1990	2001	*Percentage change, 1990–2001*
Tax expenditures	114.4	257.2	125
Direct loan commitments	0.1	19.3	17,000
Loan guarantee commitments	26.9	38.8	44
Total	141.4	315.3	123

Source: *Special Analyses, Budget of the U.S. Government, FY 1990* (Government Printing Office, 1989), pp. F70-87, G44-49; *Analytical Perspective, Budget of the U.S. Government Fiscal Year 2003* (Government Printing Office, 2002), pp. 99–101; 212–33.

producers, making it necessary for nonprofits to market their services in order to benefit.

To be sure, the expansion of government spending that occurred from the late 1980s though the 1990s did not affect all fields in which nonprofits are active. Public spending on higher education, for example, lost ground, though the creation of a direct student loan program and the continued expansion of tax and credit programs for higher education softened some of the blow. In addition, the shift in the character of public sector support from producer-side subsidies to consumer-side subsidies meant that access to it was more difficult, necessitating more intensive marketing efforts. Nevertheless, the increase that took place in government spending in fields where nonprofits are active was striking, creating another important opportunity for the sector.

Summary

In short, American nonprofit organizations have not only been buffeted by a variety of significant challenges. They have also enjoyed a number of important opportunities. What is really important is not just the scope of these competing pressures, however, but how the organizations have responded. It is to this topic that we now turn.