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The marketisation of human services and the expansion of the not-for-profit sector

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There is extensive evidence that, over the past two decades, non-government organisations have taken on a dramatically significant role in the Australian welfare state, as governments increasingly fund them to deliver human services. Mark Considine argues that this trend in Australia ‘can be viewed as the most important and most radical change to state–society relations since the advent of the modern welfare state’ (2003, p. 63). This chapter explores this development in an effort to consider how not-for-profit welfare services have come to be positioned in the marketisation agenda that this collection seeks to capture.

The organisations discussed in this chapter are variously referred to elsewhere as non-government organisations (to specify separateness from government); third sector organisations (to specify a distinctiveness from two other sectors, the market and the state); civil society organisations (to specify a basis in associations formed voluntarily, rather than through the family, state or market) and community sector organisations (to specify a concern with local or particularised needs). In this chapter, the relationship of these organisations with government, with the market, with civil society and with ‘the community’ is brought

into question. As such, the term not-for-profits (NFPs) is utilised. Thus the defining characteristics of the organisations under discussion are 1) that they do not seek to distribute profits and 2) they seek to provide a range of public goods and services (taken, partially, from Casey & Dalton 2006, p. 25). Here then, their distinctiveness hinges on the common feature that they are not, as Davidson puts it, ‘in it for the money’ (Davidson 2009, p. 65). While ‘the NFP sector’ encompasses a huge diversity of organisations, including sporting, hobby and cultural groups, this chapter focuses on NFPs that provide human services.

However, there are important differences within the category of NFP human services: between organisations constituted as charities, and those constituted as incorporated associations; between those with a religious auspice and those founded in social movement, consumer rights or self-help activities; between the very large and the very small; between the highly bureaucratised and those with quite ad hoc administrative structures; and between those with a single service focus and those that work across a range of human services. Indeed, part of the narrative in this chapter concerns the way ‘the NFP sector’ has been historically produced as a unified category of services through marketisation processes.

In 2010, the Productivity Commission found that not-for-profit organisations were the major providers in most human service areas across Commonwealth, state and territory government agencies and that there were around 20,000 non-profit organisations in the humans services sector that relied on government for their main source of funding. The Productivity Commission also reported that total government funding to non-profit human services had increased from $10.1 billion in 1999–2000 to $25.5 billion in 2006–7 (Productivity Commission 2010, pp. 300–62). By way of contrast, research conducted in 1995 by the Industry Commission identified some 11,000 ‘community sector social welfare organisations’ that were receiving government funding, and most of the organisations identified employed fewer than five staff (Industry Commission 1995). These data establish that the NFP human services sector in Australia is substantial and that government funding to it has increased exponentially over the past two decades.
Historical threads to NFP welfare sector expansion

In Australia, NFPs have historically played a role in maintaining the welfare of citizens, intervening where the market and the family have failed them. Prior to nationhood and throughout the early and mid-20th century, charities and mutual aid societies provided the majority of social services. In the case of charities, these activities were sustained by support from religious organisations, some government grants and subsidies, and donations from the public (Berman et al. 2006). Many of the charities were church-based, fragmented along sectarian lines and, in addition to providing public goods, were ‘partly motivated by competition for souls’ (Murphy 2006, p. 44.10). Mutual aid societies, such as the friendly societies, developed along self-help lines, and provided insurance and services to group members and their families. Paul Smyth (2008) suggests that NFPs were historically located outside of government and relied on a culture of voluntarism. Indeed, Leslie Chenoweth claims that, in Australia, governments have historically distanced themselves actively from funding and providing services, favouring a culture of ‘Australian self-reliance’ (2008, p. 54).

Extensive public funding for human services to replace the ‘somewhat haphazard coverage of voluntary organisations’ (Fawcett et al. 2010, p. 99) did not really emerge until the postwar period when, as Smyth suggests, ‘there came a point when Australia needed a welfare state’ (2008, p. 215). For example, throughout the 1960s state governments (with the exception of Victoria) began establishing large welfare departments, taking on the work of the voluntary Child Protection Societies (Lamont & Bromfield 2010). However, a similar consolidation of state responsibility for service delivery, based in principles of universality, entitlement and professionalism did not occur in the full range of personal social services, as was the case, for example, in the United Kingdom. Even during the 1970s, when state funding of social services escalated significantly, the overall model of a mixed economy of welfare did not alter much. In the Australian welfare state, government provision of community services ‘developed slowly, in a sketchy, residualised and uneven manner’ (Harris & McDonald 2000, p. 54).

Berman and colleagues’ (2006) detailed history of funding to two of the major NFP organisations on the contemporary welfare services landscape, the Brotherhood of St Laurence (BSL) and the Salvation
Army, illustrates the Australian mixed economy model in practice from the postwar period on. For example, in the 1950s, under the Aged Person's Home Act 1954, these church-based organisations were encouraged by the Commonwealth government (through matching funds for capital expenditure) to build and operate accommodation for the aged. In the 1970s, they were funded by the Commonwealth government to provide labour market programs to deal with growing unemployment, and during the 1970s and the 1980s they received government ‘project funding’ for poverty alleviation programs (particularly for the elderly and low-income families), community development projects, unemployment services, emergency and crisis accommodation services, alcohol and drug treatment programs, and domestic violence services. Children's services were another major service area where governments funded NFPs (although in this case, not the BSL or the Salvation Army) to provide services, including funding for orphanages and institutions for children with disabilities.

In the 1970s and 1980s an array of new NFP organisations appeared on the social policy landscape. In what Anna Yeatman (1990) called the ‘democratic-participative’ era in Australian public administration, new social movements politicised a new range of social needs: women’s rights, consumer rights, environmental issues, disability rights, gay and lesbian issues, migrant rights and so forth. These movements made claims on the state, both for government services (such as legal aid offices1 and community health centres) and for funding for community-based organisations to provide services (such as community legal centres, women’s health centres, neighbourhood centres and refuges). What is distinctive about the advocacy of these movements is that they were claiming not just a redistribution of resources, but the democratisation of state institutions and practices: service delivery models were pitched as an alternative to professionalised, bureaucratised, and disempowering models of welfare bureaucracy (see, for ex-

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1 The Legal Aid Commissions in the states and territories were established between the 1970s and 1990s. However, in NSW, the first Legal Assistance Act was passed in 1943, and this established the Public Solicitors Office. On its website, NSW Legal Aid state that it was at this point that ‘legal aid was no longer a charity but a social right. It was the first time in the western world that lawyers were employed to give legal aid to low income earners’.
ample, Broom 1991; Weeks 1994). But the new organisations were also established as an alternative to the traditional NFPs, the charities. Social movements were particularly critical of the historical role that charities had played in determining citizens as deserving or undeserving of service, and also of the reliance on religiously motivated volunteers and faith-based analyses of social problems. Martin Painter (1992) argues that government responded to the new social movement organisations with an official discourse of participation. Christine Everingham (2003) suggests that what emerged was a state-sponsored community sector that was quite distinct from the charity sector.

However, in the early 1990s, the state-sponsored community sector lost much of its legitimacy. Public choice discourses contributed a rationale for the de-funding of services provided by women’s groups, environment groups and migrant rights groups (Fawcett et al. 2010). Public choice proponents argued that many of the NFP groups actively involved in the delivery of community-based services not only failed to reflect the public good, but also seriously distorted social policy by promoting ‘special interests’ over the interests of the general community and, in some cases, building ‘service empires’ for themselves. They had ‘captured the state’. In addition, the rise of managerialism and economic rationalism in public administration rendered community-based NFPs vulnerable in the new efficiency paradigm. The development of technocratic approaches to public sector program planning and resource allocation, referred to as the ‘new public management’ (NPM), demanded that funded services demonstrate measurable outcomes. This entailed a broad shift from grants and project funding to output-based funding. The new financing models involved new data collection requirements, new standards of professionalisation and new organisational structures. For many organisations, accountability mechanisms were undeveloped and some activities (such as advocacy, democratisation and empowerment) were hard to measure, and these new frameworks were introduced ‘without the necessary funding investment in agencies to fulfill their obligations’ (Inglis & Rogan 1993, p. 7). The dual affronts of public choice discourse and NPM significantly undermined the ‘self evident worth’ (Harries 1993, p. 193) of community-based organisations. ‘Performance management’ was the beginning of the application of ‘market discipline’ to the state-sponsored community sector that, in turn, laid the foundations for the marketisation of NFPs more generally.
NFPs and the marketisation of human services: contractualism and outsourcing

Throughout the 1990s, the public sector reforms focused on ensuring that market principles applied to the public sector involved inducing competition between all types of service providers – public sector, for-profit and not-for-profit – for government funding. Competition, it was argued, would mean that government expenditure on service provision would be based on principles such as cost effectiveness and productivity rather than traditional bureaucratic decision-making processes. However, valorising competition in decision-making processes in this way also implicitly de-legitimised the new social movement goal of more democratised public decision-making. Competition positions service delivery as an output of policy that has already been decided. This contrasts significantly with the ideals of community-based human service organisations as social policy-in-action and of a more diffuse and devolved social democracy.

Competition was to be fostered through the contracting out of services, and non-government organisations were to tender for government contracts. This approach is referred to as the ‘purchaser–provider split’, in which the role of government is conceptualised as primarily the buyer (steerer), rather than the provider (rower) of public services. According to Dalton and colleagues (1996, p. 100), the purchaser–provider split was ‘supposed to allow governments to distance themselves from the day-to-day operation of services … by contracts or contracting out services’. The centrality of contractual arrangements in these reforms led some public policy analysts to refer to a shift to ‘the contract state’ or ‘New Contractualism’ (Dalton et al. 1996; Davis 1997; Sidoti et al. 2009; Yeatman 1995). Commenting on this shift in the 1990s, Glyn Davis (1997, p. 217) argued that in the emerging contract regime:

[m]uch bureaucratic attention is on monitoring performance of distant contractors, and regulating private markets … however the price of supervising and enforcement – the transaction costs of contracting – can sometimes overwhelm any financial benefit. Yet the drive towards contracts is on across Australia, a triumph of hope over experience.
A common theme in narratives of the marketisation of human services in Australia is privatisation through ‘outsourcing.’ The now iconic example of the outsourcing program involved the delivery of services to unemployed people. (In 2001, an OECD report called the Job Network a ‘radical transformation of employment service delivery … without parallel in OECD countries’ (2001, p. 262).) Until 1998, publicly funded employment services for job-seekers had been delivered by the Commonwealth Employment Service (CES), a public sector agency. In 1998, the CES was replaced by the Job Network, a network of 300 public, private and not-for-profit providers. Aulich (2011, p. 208) describes the move in terms of privatisation, explaining Minister Amanda Vanstone’s rationale for outsourcing in the following way:

Vanstone argued that a privatised service would cost less, give more choice and personalised services to job-seekers and would be better for employers. Private providers would be paid on the basis of outcomes, to drive down costs and drive up labour market participation.

In the second round of contracts in 2000, the network had reduced to 197 providers, consisting almost exclusively of for-profit and not-for-profit organisations. Reflecting on the development of Job Network, the then Minister for Employment and Workplace Relations, Tony Abbott, explained:

As the purchaser but not provider of employment services, the Government has created what might best be described as a ‘social market’ – a competitive market which exists because government has summoned it in to being. In this sense, the Job Network is an ‘arm’ of government and Job Network members are the government’s partners and allies in so far as they are bound to one another in the delivery of services the public has come to expect (2003, p. 200).

Outsourcing of human services by governments has continued apace. By 2014 the employment services sector, which had been renamed Job Services Australia by the Rudd Labor government in 2009, consisted only of NFPs and for-profit-providers. Australian governments outsource homelessness services, personal and family services, drug and alcohol services and services for people with disabilities and for
older people. Most recently in the state of New South Wales (NSW) the government has transferred a significant amount of public housing to community housing providers and has committed to transferring the majority of out-home-care (foster care) services to non-government providers by 2022 (Legislative Assembly of NSW 2013). As the data provided in the Introduction show, the majority of providers that governments outsource human services to are NFPs.

The Third Way?

An important hinge in the expansion of the NFP sector’s role in human service delivery has been the deployment of Third Way ideas. The Third Way can be traced to communitarian visions of the role of the state, particularly in the work of Anthony Giddens, which were taken up and applied in the United Kingdom by the Blair Labor government and promoted in Australia by Labor Party politicians such as Mark Latham. A central plank of the Third Way is the devolution of social services to local community groups and associations. Giddens, for example, suggested going beyond the welfare state to develop a ‘social investment state’, or a ‘positive welfare society’ by altering the balance between the forms of welfare support government provides directly and those that emerge out of the ‘third sector’, or community-based organisations and associations (Giddens 1998, p. 117). Crucial to the logic of Third Way politics was a construction of the welfare state as disabling – as cumbersome, inefficient and unresponsive to the community (see Botsman & Latham 2001). Interestingly, Third Way ideas have also been attractive to conservative parties elsewhere, and to Coalition governments in Australia. Tony Abbott, for example, claimed that ‘the Third Way may have actually come further in Howard’s Australia than in Blair’s Britain’ (2003, p. 204).

NFPs have been able to work with Third Way ideas to justify their position in welfare markets. By way of example, in its submission to the Productivity Commission’s study of the contribution of the not-for-profit sector, the peak organisation for Australian non-government community services, ACOSS (2009, pp. 2–3), prefaced their recommendations with a list of ‘10 key features and benefits of a strong,
diverse and effective not-for-profit community services and welfare sector. The list included statements such as:

The sector is mission driven rather than market driven. This means that surpluses are reinvested back to provide a dividend for community stakeholders, rather than individual shareholders...

The sector can be more responsive to previously unrecognized needs resulting from market or government failure...

An ability to respond holistically and flexibly ... Such responsiveness and flexibility cannot be guaranteed by contracted commercial services and probably not by more bureaucratic and siloed government structures.

Participation and representation of clients in management structures, program development and delivery can be empowering and lead to more effective outcomes...

Meaningful community involvement in, and responsibility for, providing community services is an important tool for weaving community cohesiveness. This can serve as a safeguard against some parts of our society becoming marginalized and alienated.

So, while economic rationalism, managerialism, contractualism and outsourcing disciplined the activities of the NFP sector, it certainly did not kill it off. Indeed, the more intense marketisation of human services that has continued into the 21st century created a new space for NFPs in newly legitimised welfare markets. This special place has been justified by governments and by NFPs alike through reference to historical legacy (that is, that NFPs had a longstanding involvement in humans service provision), social purpose (that is, that NFPs are driven by altruism rather than profit) and market competitiveness (that is, that NFPs could provide cheaper and better services).

Bringing the charities back in

Importantly, the NFP space is inclusive of charities and of community sector organisations, who champion their value in similar ways: by contrasting themselves to both government and for-profit human service providers. There is some evidence that the larger Christian charities
benefitted from their religious identity under the conservative Howard government (1996–2007), as it made significant references to the values and role of such organisations in addressing human need and social problems throughout its term (Phillips 2007). Further, an analysis of state departments of community services spending demonstrates that, apart from the major secular NGOs, such as the Red Cross, the Benevolent Society and Barnardos Australia, the larger faith-based NGOs gained the largest contracts for the delivery of major state services. For example, in NSW in 2010–11, 101 NFP agencies were funded to deliver services in the key human service area of ‘family and individual support’. Grants started at $12,000, but the large faith-based agencies typically received total funds of more than $500,000 each, with some receiving grants of more than $2.5 million (Family and Community Services 2011).

Many of the charities have expanded on the basis of status as preferred welfare providers in the market in welfare services, although it is not easy to pinpoint why they were so interested in expansion in this direction. For the church-based organisations, Murphy’s statement about ‘capturing souls’ seems anachronistic. Some recent research on NGOs gives some insight into how faith-based organisations frame their motivations (Goodwin & Phillips 2011; Phillips & Goodwin 2013). Participants tied the expansion of their organisations to mission, but referred to a broad ‘social justice’ mission rather than a specifically religious one. This framing very much overlapped with the agenda described by participants from secular NFPs. Examples of responses about expansion from both types of organisations included: ‘It’s part of our vision to improve the lives of vulnerable people’; ‘Our organisation has a strong commitment to social justice’ and ‘because of a commitment to social justice that comes out of our links to [a particular] church’ (quoted in Goodwin & Phillips 2011, p. 30). Thus the charities and community-based organisations’ rationales for delivering government-funded welfare services can be seen to converge: they are responsive, flexible, have the capacity to innovate and they are motivated by social justice principles.
Marketisation of human services and NFP policy research

While the increased role of NFPs as human services providers has been analysed in detail in the contemporary literature, one area of expansion that has been less focused upon is the way that some NFPs in the sector have grown their policy research activities. Since the 2000s, Australian NFP human service organisations have been increasingly allocating resources to policy research through the establishment of policy research units and policy research positions. Indeed, most of the large charities referred to above, as well as some smaller community-based organisations, now have specialised units (sometimes referred to as ‘social justice’ units), in which policy research is a central activity and policy researchers are key personnel. This development can be related to marketisation in a number of ways. First, the professionalisation of organisations that accompanied NPM techniques of disciplining NFPs resulted in the more regular employment of staff with research backgrounds and research degrees: the change in workforce demanded by the new requirements promoted an internal culture of developing a research base that fitted with the external pressure from funders for ‘evidence’. Second, when governments began contracting out service provision, they also began dismantling existing government research and policy units that sat alongside the service provision programs, opening a space and need for in-house research. As one policy researcher explained:

Prior to contracting out, the departments used to do evaluations of their programs. For example, governments had the data to ask questions such as whether training or work experience is more effective in moving people into the workforce. Once services were contracted out, they could no longer ask these questions because they weren’t providing the services … the fact that government is no longer producing evaluation research has created an opening for other players. (quoted in Goodwin & Phillips 2011, p. 27)

A third rationale for the expansion of NFP policy research activities relates directly to the competitive funding environment, which placed pressure on organisations to gain reputational advantage with government funders as well as with donors and other constituencies. This
advantage could be gained through research production: conducting policy research was seen to have ‘cachet’ with funders, and so was important for ‘branding’ the NFP as a serious player in the field of human services (Goodwin & Phillips 2011, p. 28). Finally, the de-legitimising of alternative forms of democratised decision-making, discussed above, created a need for alternative ways of influencing policy processes. Policy research became an effective form of working for social justice in a context where ‘evidence-based change’ was privileged over other forms of community and consumer participation and social movement activism (Goodwin & Phillips 2011, p. 31). Because NFPs had taken on such a significant role in the human services market, their proximity to end users meant they came to be regarded by government as having important intelligence for social policy and, as such, were provided opportunities to participate in policy processes via their research-based practices. In addition, because NFPs are seen as ‘not being in it for the money’, the evidence they produce is largely regarded as objective, or at least more disinterested than for-profit providers. In the context of marketisation, this final point, however, must be regarded as moot. As can be seen, in the competition state, NFPs are in it for the money, even if that money is for community stakeholders (which, as organisations grow, includes organisational staff) rather than individual shareholders.

NFPs in the human services market: community, market or state organisations?

The ostensibly powerful arguments about the distinctive nature and role of NFPs in human services are, ironically, also precisely the arguments that lose force as a result of the marketising processes described in this chapter. For example, Kerry Brown and Robyn Keast (2005) suggest that new ways of funding and providing social services may have strengthened government control through the introduction of coercive regulatory arrangements. Through these arrangements, services are governed at a distance and this can have a stifling effect on NFP’s putative capacity to innovate and be responsive to localised and individual circumstances. While NFPs continue to claim a base in ‘the community’, their activities are increasingly constructed by government as services for the community, rather than from the community.
Similarly, contractualism and competitive tendering encourage business-like practices in NFPs and orient them toward achieving the best financial outcomes, rather than the best social outcomes. The so-called gaming of performance measurement regimes (Pollitt 2007) by both NFPs and for-profits and the professionalisation of government contract tender writing are two examples of shifts in practices that blur the boundaries between these two types of organisations. In its submission to the Productivity Commission inquiry into the not-for-profit sector, the Brotherhood of St Laurence suggested that contracting out ‘led to the rise of mega not-for-profit and for-profit service delivery agencies in the non-government welfare sector whose size and aggressive business practices have sometimes crowded out and displaced more traditional sector functions’ (2009, p. 3). Again, while NFPs continue to claim separateness from the market primarily through their eschewal of a profit motive, in welfare markets they function as private organisations, deploying market strategies.

One of the most highly contested aspects of outsourcing to NFPs has been the use, by governments, of funding contracts to control criticism of government policy, particularly the use of so-called gag clauses (Maddison 2009, p. 26). This practice goes to the heart of the distinctiveness of NFPs as independent of government and advocates for social justice. Under the Howard Coalition government, confidentiality clauses were a feature of many of the contracts drawn up between the government and NFP service providers. These required organisations to seek approval of the funding agency before making public comment and were similar to clauses applied in contracts with for-profits, who were seen as ostensibly similar – as primarily contracted service providers. The Gillard Labor government sought to overturn this approach on the basis it supported a ‘strong and independent not-for-profit sector’, and the Not For Profit Sector Freedom to Advocate Act was enshrined in 2013. Interestingly, however, the Queensland government has maintained its position on confidentiality clauses, but for different reasons. Its position is that where NFP organisations receive a majority of their funding from government, they are, ‘to all intents and purposes, government agencies. And, given that this is the case, it follows they should be subject to the same conditions that apply to any other government agency’ (Thomas & Knowler 2013, p. 8).
The positioning of NFPs as either quasi-private organisations or quasi-government organisations in government-funded human services markets works against the notion that they are civil society organisations, formed voluntarily outside of the domains of the state, market or family, and the NFP sector is grappling with reasserting its identity as the third sector. Wright and colleagues (2011) contend that perhaps the most significant, and most widely accepted, outcome of the contracting out of human services to not-for-profit organisations is the government’s appropriation of third sector discourses. They argue this appropriation has led to the ‘automatic positioning’ of the state in an ‘unfavourable and undesirable light as a desirable arena of service provision’ (Wright et al. 2011, p. 303). This is perhaps the most radical way in which the marketisation of NGOs has changed state–society relations.

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